

THE TICKER

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"Everybody's" vs. Wall Street

An Attack Characterized by Dense Ignorance and Supreme Hypocrisy

THE announcement of the February *Everybody's* contained the following:

"We have a story in this number on Margin Gambling. This will be followed up by other articles to the same end, and we cheerfully predict that twenty years from now the man who asks you to put up your money on a margin will be greeted with the same humorous contempt as the man who today asks you to speculate as to which of the three shells conceals the missing pea."

Securing a copy of the magazine, we found the article, labeled "The Poison of the Street," by Frederick S. Dickson.

Before Mr. Dickson starts to unbotle the Poison, the editor of the magazine comes forward with the following introduction:

"The author of this article was manager of the Cleveland branch of the defunct Stock Exchange firm of A. O. Brown & Co., whose spectacular downfall wrought so much ruin and disaster. A lawyer by profession, he it was, as trustee for the creditors, who steered the great Everett-Moore Syndicate of Cleveland through the sloughs of a seventeen-million-dollar bankruptcy back to prosperity. He is president of the Associated Western Yale Clubs, succeeding President-elect Taft. What this man has to tell about the methods of the New York Stock Exchange must be accepted as the truth."

It is highly considerate of the editor to

thus warn the reader that the Poison was prepared by one who naturally holds a strong grudge against the New York Stock Exchange. Did he not lose his job as a result of the Brown failure, and did not everyone connected with that firm blame the Stock Exchange for the firm's own misdeeds?

Expert knowledge of Stock Exchange methods is not acquired at the Cleveland end of a telegraph wire. Lawyers who are at all prominent and successful in their profession do not retrogress to the managership of a stock broker's branch office. However, Mr. Dickson's ludicrous presentation of the case against Wall Street in behalf of *Everybody's*, plaintiff, contains much evidence as to why the Cleveland Bar lost one of its most brilliant luminaries.

After reading his argument we cannot believe that personal ability alone secured Mr. Dickson the trusteeship in question. Nor would the presidency of a hundred clubs equip him to intelligently apply the Poison label to a bottle the contents of which he judges by hearsay and assumption.

The fact that the editor of *Everybody's* insists upon the acceptance of this article as the truth, proves that he also knows nothing whatever of Stock Exchange methods.

As for Erman J. Ridgway, president of The Ridgway Co. and chief owner of *Everybody's*, we have a letter in this office containing the following:

"When you get me into the field of finance, the babes in the wood were sophisticated compared with me.

"I know absolutely nothing about finance.

"(Signed) E. J. RIDGWAY."

If both the editor and the owner of *Everybody's* are devoid of financial knowledge, how do they justify their decision that Wall Street needs attacking? Have they any other motive than an ambition to become muckrakers-in-chief or is theirs that miserable trait which prompts the bully to jump on a man who is already being pummeled?

The article itself proves that the author is presuming upon the ignorance of both the management and the readers of this deluded publication.

"It's a mean bird that befouls its own nest." Why did not Mr. Dickson tell us about the "Poison of the Street" when he was drawing a salary from A. O. Brown & Company?—the salary which was being paid him out of commissions received from his friends and clients.

His picture of the firm which buckets its customers' orders may illustrate the A. O. Brown method, but we defy anyone to prove that such practices are followed among representative New York Stock Exchange houses.

Here are some of the most brilliant extracts from the Poison Bottle, all of which tend to show how thoroughly equipped Mr. Dickson is to explain these matters to the public.

Mr. Dickson says:

"Practically all the trading in small 'lots is done through floor traders and specialists."

The facts are that floor traders never handle orders for odd lots. They seldom execute even hundred-share orders for anyone but themselves. The business in odd lots is all done through "Odd Lot Houses."

"The Lamb is permitted to succeed 'in his operations only until he has 'made enough to make it worth while 'for a professional to get up and take 'it from him."

This means that if you start trading with \$1,000 and make \$20,000, the professional trader knows at once that you have been guilty of success; also that

you are long 1,000 Union Pacific and 1,000 full shares of Pennsylvania on a ten-point margin. In spite of the laws of supply and demand and the opposition of Harriman, Rockefeller and the whole Street, this "professional operator" depresses the value of \$200,000,000 worth of Union Pacific and \$300,000,000 worth of Pennsylvania for the sole purpose of taking your \$20,000 away from you. No other \$20,000 will do but yours, and the shrinkage in values, amounting to hundreds of millions, is but a trifling incident in the affair.

"The bucket-shop man will take orders on a margin of one or two 'points. The Stock Exchange man 'demands five or ten. The bucket-shop man takes margin orders on 'five shares or even less, while the 'Stock Exchange man refuses to carry less than 50 or 100 shares on margin."

From this we learn that the value of either establishment increases in proportion to the smallness of its margins and quantities. Anyone who would accept one share orders and a half-point margin would out-Carnegie Andrew. The minimum trade in practically all bucket shops is 10 shares. About half the commission houses represented on the New York Stock Exchange will take orders for 10 shares and up on margin.

"For every \$1 lost in a bucket-shop, 'thousands of dollars are lost through 'legitimate Stock Exchange houses."

Mr. Dickson is conversing through his Dunlap. The figures have never been compiled. To do so would be absolutely impossible.

"When your broker is in the market 'against you, you are certain to lose, 'because his resources are greater 'than yours."

This means that if *anyone* takes the opposite side of the market to you, and has greater resources than you, he will win and you are bound to lose. The fact that your opponent is a broker does not influence the market price. Hence, according to Mr. Dickson, it is a mere matter of resources. Moral: Never go long of a stock while someone with

more margin is short of it. Shrewd of Mr. Dickson to reason that out.

"Values in 1907 shrank from no 'cause at all except the desire to dis-credit the President."

Overlooking the stupid assertion that the "cause" was a "desire," were there not some other conditions which at least slightly contributed toward the panic of 1907? The ex-lawyer says not. We'll leave it to the office boy.

"That the machinery of the New York Stock Exchange is used daily to serve the selfish purposes of a 'single man, or, rather, of a group of men acting as one, possessed of preponderating wealth, and of almost unlimited power, is known and believed of all men who know aught of the inner life of Wall Street. It is quite unnecessary that this man, or this group, should be given a name, for it matters not at all what the name may be, if the thing exists."

Does any reader suppose Mr. Dickson would pass this opportunity of naming the Bogie if he could? We have studied the habits and methods of all the great operators and magnates at close range and have yet to find this individual or group; nor have we been able to locate anyone who knows of his or their existence.

"If a big operator gets in the way of a bigger one, the weaker is as ruthlessly ruined as is the lamb by the little operator."

This teaches us that the ruination of each other is the chief occupation in Wall Street. Operators do not ask, "What can I buy?" but "Whom can I ruin?"

"If an average of 836,400 shares are dealt in per day, this means \$8,364,000 risked in gambling contracts. Allowing one winning trade out of four and figuring that the unsuccessful gamblers lose half their margins, the gross losses in one day would be \$3,186,500."

How about the hundreds of floor traders who never take more than a fractional loss, and the thousands of

investment purchases which are made daily? As a rule, the outside speculator carries his losing ventures for weeks and months before taking a loss. Brokers' books prove this. In a year like 1908, when stocks were advancing, the probable result of the majority of days was many millions' profit to the public. Mr. Dickson is doubtless basing estimates on results obtained by the clients who operated under his guidance.

"There is no question whatever that there is not on the Street enough stock available for delivery to satisfy the demands of a single day's business."

There is a certificate of stock available for *every share* of stock which is sold. Ninety-five per cent of these deliveries are made before 2:15 P. M. on the delivery day, immediately following their sale. The other 5 per cent are made up of certificates coming from out-of-town parties by express or otherwise or that are undeliverable on account of closed transfer books, etc.

"Were the use of the ticker made unlawful, all gambling brokerage offices would be forced to close their doors."

Twenty years ago the Stock Exchange stopped the ticker service. Messenger boys carried the quotations. Not a single brokerage house closed its doors. Speculation did not cease.

Having thus thrown off these oracular sparks, which are more the result of friction than inherent brilliancy, the Poison Bottler proceeds to name the antidote:

"Let the law, then, while in general prohibiting margin trading, also particularly prohibit the broker from lending any additional sum beyond the bank loan. Make it clear, also, that the ownership of the stock is wholly in the customer, and that it will be grand larceny for the broker to use this collateral for his own advantage. Such provisions as these would make the prohibition against margin trading instantly effectual, and nothing

"short of this would. Let the law compel him who would sell short to describe in writing and with particularity the thing that he would sell."

The advantage of entrusting the solution of this question to a trained legal mind is apparent to all.

We trust, however, that His Eminence will permit a layman to call his attention to these clauses in a certain decision handed down by a tribunal located at Washington, D. C., U. S. A., and known as the United States Supreme Court:

"In no just sense can the broker be held to be the owner of the shares of stock which he purchases and carries for his customer. * * *

"The certificate of shares of stock is not the property itself, it is but the evidence of property in the shares. * * *

"Nor is the right to repledge inconsistent with ownership of the stock in the customer."

It is to laugh!

The Dicksonian code evidently would read: "If you buy 100 shares of stock at par (\$10,000) and your broker will loan you \$9,000 on it, you are gambling. But if your broker will only loan you \$8,000, your action is legitimate." Applied to real estate: If the title company will loan but \$8,000 on a house, its owner would be gambling if he borrowed \$8,500 elsewhere.

Mr. Dickson's obstacle to short selling has also been anticipated and forestalled by the Supreme Court, as follows: "A certificate of the same number of shares, although printed upon different paper and bearing a different number, represents precisely the same kind and value of property as does another certificate for a like number of shares of stock in the same corporation."

As there is no difference between selling short stocks and pickles, imagine Mr. Heinz of Pittsburgh having sold a quantity of the latter for delivery in November, 1909, furnishing the following specifications regarding said pickles:

"In accordance with chapter 41144 of the Laws of 1909, I hereby describe 50 cases of my best brand of pickles.

The plants which are to bear said pickles have not yet been put into the ground, but I have reason to believe said pickles will be green and contain the usual number of warts."

Finally, Mr. Dickson lets himself out with this contradiction of all that he has previously said:

"Buying more stock than one is able to pay for is no more evil than buying real estate subject to mortgage or borrowing money for the extension of a manufacturing plant or the development of a railroad."

Can you imagine a worse bungler than this man Dickson? After a bull-in-a-china-shop pleading of his fatuous case, he turns to judge and jury and says, "Er—er—I think I must have been mistaken in my foregoing remarks. Permit me to withdraw."

We wonder if he handed back his retainer?

A small boy with a bundle of newspapers under his arm rushed down Park Row and yelled to another kid:

"Hey, Chimmie, dey's a hell of a war in der papers!"

It seems there is a hell of a war against Wall Street and that the seat of this war is centered in magazines like *Everybody's*, whose editorial staff (which does not understand) is hiring literary thugs (who do not understand) to make the public understand that everything pertaining to Wall Street is dead wrong and needs adjusting immediately.

We suggest that the following motto be hung in certain Ohio clubrooms, in the headquarters of *Everybody's*, and *Every-Other-Body's Magazine*:

*you can't
explain to
someone else,
a thing you
yourself do
not understand*

Everybody's most recent attack is through the medium of newspaper advertisements offering prizes for stories of deception and loss "through the heartless trickery of Wall Street."

We predict that 90 per cent of these stories of loss will describe ventures made at the instigation of that arch trickster, Thomas W. Lawson, whom Wall Street regards as a financial outlaw and whose power as a false prophet and a wheedler of the people's savings began with the admission of his wretched story into the pages of *Everybody's Magazine*.

In the whole history of Wall Street no black sheep ever led so many lambs to slaughter as this same Thomas W. Lawson, advertised and made possible by *Everybody's*.

The tale of the Lawson campaign, could all the facts be gathered, would be a story of loss such as "would move even the stones of the street to rise and mutiny." This, we understand, is the kind of story for which a prize dangles.

One thousand dollars in prizes is a mighty small amount to offer the public in view of the millions and millions it has lost through the Black Sheep whom *Everybody's* has championed.

The advertisement says: "Perhaps you yourself—perhaps your father or your husband, your brother, even a widowed mother, has fallen victim to one of its gilded traps and has dropped the family's little hoard into some great financier's purse."

We should like Erman J. Ridgway to take the stand and answer the following questions:

Is it not true that at least one of the owners of "*Everybody's*" made a large amount of money on information furnished him by Thomas W. Lawson on the eve of the so-called Lawson panic?

Is it not likely that many a "widowed mother" having bought Amalgamated at a high price on Lawson's advice, sold it during the Lawson panic, thus falling into the Lawson-*Everybody's* gilded trap, and dropping "the family's little hoard" into the purse of the owner of "*Everybody's*"?

Has short selling always been an "evil," or has it only become one since said owner of "*Everybody's*" made his turn on the short side of the market?

When you and your associates bought "*Everybody's*" from John Wanamaker, did you not know that he had lost something like \$300,000 in trying to make the magazine a success?

In paying \$90,000 more or less for the magazine, were not you and your associates gamblers of the worst type?

If current reports were true and less than 10 per cent. of this amount was paid in cash, were you not gambling on less than a 10 per cent. margin?

When you suspended publication of "*Ridgway's*," a weekly, did you have in cash all the \$500,000 which this ill-starred venture is said to have cost?

If you had only \$450,000 in cash, do you realize that you were carrying "*Ridgway's*" on a margin?

Is it more immoral to speculate in stocks than in magazines?

Erman J. Ridgway, self-acknowledged Babe-in-the-Woods of Finance, The TICKER dares you to print beside your "prize" stories:

1. The percentage of victims who mention Lawson or his stocks.
2. Your answer to the above questions.

Studies in Tape Reading

By Rollo Tape

Author of "Powers Behind the Market," "The Machinery of Manipulation," &c.

V. Volumes and Their Significance

AS the whole object of these studies is to learn to read what the tape says, I will now explain a point which is probably one of the most valuable in the practice of the art. This must be known and understood before we proceed, otherwise the explanations cannot be made clear.

First of all, we must recognize that the market for any stock—at whatever level it may be—is composed of two sides, represented by the bid and the asked price. Please remember that the last sale is something entirely different from the market price. If Steel has just sold at 50, this figure represents what has happened. It is history. The *market price* of Steel is either $49\frac{1}{8}@50$ or $50@50\frac{1}{8}$. The bid and asked prices combined form the market price.

This market price is like a pair of scales, and the volume of stock thrown by sellers and reached for by purchasers shows toward which side the preponderance of weight has momentarily shifted. For example, when the tape shows

US

500 . 50 . 1000 . $\frac{1}{8}$. 50 . 1500 . $\frac{1}{8}$

the market price is $50@1\frac{1}{8}$, and the large volumes are on the up side. In these four transactions there are 700 shares sold at 50 against 2,500 taken at $50\frac{1}{8}$, proving that *at the moment* the buying is more urgent than the selling. The deduction here to be made is that Steel will probably sell at $50\frac{1}{8}$ before $49\frac{1}{8}$. There is no certainty in this, for supply and demand is changing with every second, not only in Steel but in every other stock on the list.

Here is one advantage in trading in the leaders. The influence of demand or pressure is concentrated or at least strongly felt in the principal stocks. The hand of the dominant power, whether it be an insider, an outside manipulator or the public, is shown in these volumes. Especially is this true in the pivotal stocks, like Union Pacific, Reading and others, which are generally used by the Harriman and Rockefeller parties. The reason is simple. These big fellows cannot put their stocks up or down without trading in enormous amounts. In an advancing market they are obliged to reach up for or bid up their stocks, as, for example:

U

182 . 1000 . $\frac{1}{8}$. 200 . 182 . 1500 . $\frac{1}{8}$

$200\frac{1}{4}$. 3500 . $\frac{3}{8}$. 2000 . $\frac{1}{2}$.

In a case like the following, Union Pacific is being bought on a decline whenever round lots come into the market:

U

200 . $181\frac{1}{2}$. 2600 . $\frac{5}{8}$. $\frac{1}{2}$. 200 .

$\frac{3}{8}$. $\frac{1}{4}$. $\frac{1}{8}$. 4000 . $\frac{1}{4}$. 1500 . $\frac{3}{8}$.

Take the opening and subsequent transactions in American Locomotive one day last fall:

200...47¼
 1900...46¾
 100...46¾
 100...46½
 100...46¾
 600...46¾
 100...46¾
 600...46
 100...45½
 200...45¾
 100...46
 100...45¾
 100...46½
 100...46
 200...46¼
 100...46¾
 11 A. M.
 300...46¾
 100...46¾
 100...46
 100...45¾
 100...46
 100...45¾
 100...46
 600...45¾
 500...45¾
 200...45¾
 100...45½
 100...45¾
 400...45¾
 100...45¾
 400...45¾
 100...45¾

Here the opening market price was $46\frac{3}{4}@47\frac{1}{4}$, and the buyers of 200 shares "at the market" paid the high price. All bids at $46\frac{3}{4}$ were then filled. This is proved by the next sale, which is at $46\frac{3}{4}$. The big lots thereafter are mostly on the down side, showing that pressure still exists. The indications are, therefore, that the stock will go lower. A lot of 1900 shares in a stock like Locomotive is a large lot; in Union Pacific it would be of frequent occurrence, even in comparatively dull markets.

Volumes must be valued in proportion to the activity of the market, as well as the relative activity of that particular issue. No set rule can be established. I have seen a Tape Reader make money by following the lead of a 1000-share lot of Northwest which someone took at a fraction above the last sale. Ordinarily Northwest is a sluggish investment stock, and this size lot appeared as the forerunner of an active speculative demand.

Now let us see what happens on the floor to produce the above described effect on the tape—let us prove that our theory is correct. A few years ago the control of a certain railroad was being bought on the floor of the New York Stock Exchange. One house was given all the orders, with instructions to distribute them and conceal the buying as much as possible. The original order for the day would read, "Take everything that is offered up to 38." As 38 was about 3 points above the market of the day before this left considerable leeway for the broker to whom the buying order was entrusted.

He would instruct his floor broker as follows: "The stock closed last night at 35. You take everything offered up to $35\frac{1}{2}$ and then report to me how things stand. Don't bid for the stock; just take it as it is offered and mark it down whenever you can."

In such a case the floor member stands in the crowd awaiting the opening. On the instant of ten o'clock the chairman's gavel strikes and the crowd begins yelling. Someone offers "2000 at an eighth." Another broker says "Five for five hundred." Our broker takes the 2000 at $\frac{1}{8}$, then offers it at $\frac{1}{8}$ himself, so as to keep the price down. Others then offer one or two hundred shares at $\frac{1}{8}$, so he withdraws his offer, as he wishes to accumulate and only offers or sells when it helps him buy more, or puts the price down. The buyer at 35 has 300 shares of his lot cancelled, so he alters his bid to "35 for two hundred." The other sellers supply him and he then bids " $\frac{7}{8}$ for a hundred." Our broker sells him 100 at $\frac{7}{8}$ just to get the market down. Someone comes in with "a thousand at five." Our broker says, "I'll take it." Five hundred more is offered at $\frac{1}{8}$. This he also takes.

Let us see how the tape records these transactions:

The Tape Reader interprets this: Opening bid and asked price was probably $35@3\frac{1}{8}$; someone took the large lot at the high price. The two sales following were in small lots, showing light pressure. The $1000@35$ after $34\frac{7}{8}$ shows that on the $\frac{7}{8}@5$ market the buyer took the stock at the offered price and followed it up by taking 500 more at the eighth. The weight is on the up side and it does not matter whether the buyer is one individual or a dozen, the momentary trend is upward.

To get the opposite side, let us suppose a manipulator is desirous of depressing a stock. This can be accomplished by offering and selling more than there is a demand for, or by coaxing or frightening other holders into throwing over their shares. It makes no difference whose stock is sold; "The Lord is on the side of the heaviest battalions," as Addison Cammock used to say. When a manipulator puts a broker into a crowd with orders to mark it down, the broker sup-

2000 . $35\frac{1}{8}$. 200 . 35 . $34\frac{7}{8}$. 1000 . 35 . 500 . $\frac{1}{8}$

plies all bids and then offers it down to the objective point or until he meets resistance too strong for him to overcome without the loss of a large block of stock.

The issue in question is selling around 80, we will say, and the broker's orders are to "put it to 77." Going into the crowd, he finds 500 wanted at $79\frac{7}{8}$ and 300 offered at 80. Last sale, 100 at 80.

"I'll sell you that five hundred at seven-eighths. A thousand or any part at three-quarters," he shouts.

"I'll take two hundred at three-quarters," says another broker.

"A half for five hundred," yells a voice. "Sold!" is the response. "A half for five hundred more." "Sold!" "That's a thousand I sold you at a half. Five hundred at three-eighths!"

"I'll take a hundred at three-eighths," comes a voice.

"You're on!" is the reply.

"Quarter for five hundred."

"Sold!" is the quick response.

His pounding of the stock would reveal itself on the tape as follows:

the tape makes the following report of what happens:

X

$80\frac{1}{8}$. 80 . 200 . $79\frac{7}{8}$. $\frac{3}{4}$. 1000 . $\frac{7}{8}$

$\frac{3}{4}$. 200 . $\frac{5}{8}$ 500 . $\frac{3}{4}$. 300 . $\frac{3}{4}$. $\frac{1}{2}$.

$\frac{3}{8}$. 1500 . $\frac{1}{2}$. $\frac{3}{8}$. 500 . $\frac{1}{4}$. $\frac{1}{8}$.

Were we on the floor we should see one broker offering the stock down, while the other grabbed every round lot that appeared. We cannot tell how far down the stock will be put, but when these indications appear it makes us watch closely for the turning point, which is our time to buy.

So far as the Tape Reader is concerned, he does not care whether the move is made by a manipulator, a group of floor traders, the public or a combination of all.

X

80 . 500 . $79\frac{7}{8}$. 200 . $\frac{3}{4}$. 1000 . $\frac{1}{2}$. $\frac{3}{8}$. 500 . $\frac{1}{4}$

If he met strong resistance at 79 it would appear on the tape something like this:

The figures on the tape represent the consensus of opinion, the effect of manipulation and the supply and demand, all

X

$79\frac{1}{8}$. 1000 . 79 . 500 . 79 . 800 . 79 . 300 . $\frac{1}{8}$ 1000 . 79 . 500 . $\frac{1}{4}$. $\frac{3}{8}$. 200 . $\frac{1}{2}$

showing that at 79 there was a demand for more than he was willing to supply (there might have been 10,000 shares wanted at 79).

Frequently a broker meeting such an obstacle will leave the crowd long enough to 'phone his principal. His departure opens the way for a rally, as the stock is no longer under pressure, and the large buying order at 79 is something for floor traders to fall back on. So those in the crowd bid it up to $\frac{1}{2}$ in hopes of scalping a fraction on the long side.

Take another case where two brokers are put into the crowd—one to depress the stock and the other to accumulate it. They play into each other's hands, and

combined into concrete units. That is why tape indications are more reliable than what anyone hears, knows or thinks.

With this idea of the pair of scales clearly implanted in our minds, we scan the tape, mentally weighing the leaders in our effort to learn on which side the tendency is strongest. Not a detail must escape our notice. A sudden demand or a burst of liquidation may enable us to form a new plan, revise an old one or bid us wait.

These volume indications are not always clear. Nor are they infallible. It does not do to rely upon the indications of any one stock to the exclusion of the

rest. There was a time, in September, 1908, when certain stocks (Union and Reading, if memory is correct) were being rushed up, while the volume indications in the other active stocks showed clearly that they were being distributed as fast as the market would take them. This happens very frequently on a large or small scale. Especially is it apparent at the turning point of a big swing where accumulation or distribution requires some days to complete.

Volumes can be studied from the reports printed in the *New York Evening Sun* or the *Wall Street Journal*, but the real way to study them is from the tape. If one is unable to spend five hours a day at the tape while the ticker is in operation, he can arrange with one of the boys in his broker's office to wind the tape up each day and save it for him. This is done most expeditiously by using an automatic reel, which can be had at any store where telegraph instruments are sold. The tape can then be taken home and studied at leisure. A second reel in the study makes it easy to unwind, after which the tape can be made to run across one's desk just as though it were coming from the ticker.

In studying under these conditions do not let yourself be deceived as to your ability to make money on paper. Imaginary trades prove nothing in Tape Reading. The way to test your powers is to get into the game. Let it be on as small a scale as you like, but make actual trades with real money.

There are times when the foregoing rule of volumes indicates almost the reverse of what we have explained. One of these instances was described in our last instalment. In this case the transactions in Reading suddenly swelled out of all proportion to the rest of the market and its own previous volume. Notwithstanding the predominance of apparent demand, the resistance offered (whether legitimate or artificial) became too great for the stock to overcome, and it fell back from 144 $\frac{3}{8}$. On the way up these volumes alone suggested a purchase, but the tape showed abnormal transactions accompanied by poor response from the rest of the list. This suggested manipulation and warned the operator to be cautious on the bull side. The volume in Reading was sustained

even after the stock reacted, but the large lots were evidently thrown over at

| | |
|---------|-------------------|
| 700... | 143 $\frac{3}{8}$ |
| 500... | 143 $\frac{3}{8}$ |
| 5000... | 143 $\frac{3}{8}$ |
| 1700... | 143 $\frac{3}{8}$ |
| 200... | 143 $\frac{3}{8}$ |
| 4300... | 143 $\frac{3}{8}$ |
| 3700... | 143 $\frac{3}{8}$ |
| 100... | 144 |
| 12 M. | |
| 5000... | 144 |
| 1300... | 143 $\frac{3}{8}$ |
| 3000... | 144 |
| 5000... | 144 $\frac{1}{2}$ |
| 2100... | 144 $\frac{1}{2}$ |
| 2200... | 144 $\frac{1}{2}$ |
| 3500... | 144 $\frac{1}{2}$ |
| 4000... | 144 $\frac{1}{2}$ |
| 3000... | 144 $\frac{1}{2}$ |
| 2500... | 144 $\frac{1}{2}$ |
| 3500... | 144 |
| 400... | 144 $\frac{1}{2}$ |
| 1000... | 144 |
| 500... | 144 $\frac{1}{2}$ |
| 1100... | 144 |
| 2000... | 143 $\frac{3}{8}$ |
| 2500... | 143 $\frac{3}{8}$ |
| 1000... | 143 $\frac{3}{8}$ |

Turning Point in Reading, morning of Jan. 4,
1909—the day of the Con. Gas collapse.

the bid prices. On the way up the volumes were nearly all on the up side and the small lots on the down side. After 144 $\frac{3}{8}$ was reached the large lots were on the down side and the small lots on the up.

It is just as important to study the small as the large lots. The smaller quantities are like the feathers on an arrow—they indicate that the business part of the arrow is at the other end. In other words, the smaller lots keep one constantly informed as to what fraction forms the other side of the market. To illustrate: During the first five trades in Reading, recorded above, the market quotation is shown to have been $\frac{3}{8}$ @ $\frac{3}{4}$; it then changed to $\frac{3}{4}$ @ $\frac{7}{8}$ and again to $\frac{7}{8}$ @4. On the way down it got to be 4@ $\frac{1}{8}$, and at this level the small lots were particularly valuable in showing the pressure which existed.

Stocks like Union and Reading usually make this sort of a turning point on a volume of from 25,000 to 50,000 shares. That is, when they meet with opposition on an advance or a decline it must be in some such quantity in order to stem the tide.

Walk into the hilly country and you

| | | | | | |
|----------|----------|------|----------|---------|----------|
| 200 | 1477 1/2 | 200 | 1483 1/2 | 400 | 1483 1/2 |
| 4500 | 1471 1/2 | 800 | 1481 1/2 | 100 | 1481 1/2 |
| 100 | 1463 1/2 | 400 | 1481 1/2 | 100 | 1481 1/2 |
| 500 | 147 1/2 | 1200 | 1481 1/2 | 900 | 1481 1/2 |
| 1200 | 1463 1/2 | 1800 | 1481 1/2 | 100 | 1481 1/2 |
| 1000 | 1467 1/2 | 11 A | 1481 1/2 | 200 | 1481 1/2 |
| 1000 | 147 1/2 | 900 | 1481 1/2 | 500 | 1481 1/2 |
| 800 | 1471 1/2 | 2200 | 1481 1/2 | 100 | 1481 1/2 |
| 1000 | 1471 1/2 | 1500 | 1481 1/2 | 700 | 1481 1/2 |
| 1000 | 1471 1/2 | 1000 | 1481 1/2 | 800 | 1481 1/2 |
| 1000 | 1471 1/2 | 1700 | 1481 1/2 | 400 | 1481 1/2 |
| 500 | 1471 1/2 | 1100 | 1481 1/2 | 1100 | 1481 1/2 |
| 800 | 147 1/2 | 200 | 1481 1/2 | 1600 | 1481 1/2 |
| 800 | 1467 1/2 | 600 | 1481 1/2 | 2700 | 1481 1/2 |
| 800 | 147 1/2 | 100 | 1481 1/2 | 400 | 1481 1/2 |
| 400 | 1471 1/2 | 600 | 1481 1/2 | 100 | 1481 1/2 |
| 1000 | 1471 1/2 | 100 | 1481 1/2 | 1200 | 1481 1/2 |
| 1800 | 1471 1/2 | 1200 | 1481 1/2 | 600 | 1481 1/2 |
| 2000 | 1471 1/2 | 100 | 1481 1/2 | 300 | 1481 1/2 |
| 1100 | 1477 1/2 | 1100 | 1481 1/2 | 3100 | 1481 1/2 |
| 100 | 1471 1/2 | 2400 | 1481 1/2 | 300 | 1481 1/2 |
| 2000 | 1473 1/2 | 100 | 1481 1/2 | 3000 | 1481 1/2 |
| 200 | 1471 1/2 | 100 | 1481 1/2 | 1500 | 1481 1/2 |
| 1100 | 1473 1/2 | 100 | 1481 1/2 | 800 | 1481 1/2 |
| 1200 | 1471 1/2 | 100 | 1481 1/2 | 100 | 1481 1/2 |
| 1000 | 1473 1/2 | 100 | 1481 1/2 | 200 mid | 1481 1/2 |
| 500 | 1471 1/2 | 1500 | 1481 1/2 | 300 | 1481 1/2 |
| 1200 | 1473 1/2 | 100 | 1481 1/2 | 700 | 1481 1/2 |
| 2700 | 1473 1/2 | 700 | 1481 1/2 | 100 | 1481 1/2 |
| 800 | 1473 1/2 | 5700 | 1481 1/2 | 100 | 1481 1/2 |
| 500 | 1471 1/2 | 4400 | 1481 1/2 | 500 | 1481 1/2 |
| 800 | 1473 1/2 | 100 | 1481 1/2 | 700 | 1481 1/2 |
| 3000 | 1471 1/2 | 1500 | 1481 1/2 | 4300 | 1481 1/2 |
| 700 | 1473 1/2 | 1500 | 1481 1/2 | 100 | 1481 1/2 |
| 400 | 1471 1/2 | 1200 | 1481 1/2 | 1300 | 1481 1/2 |
| 2400 | 1473 1/2 | 1100 | 1481 1/2 | 1500 | 1481 1/2 |
| 700 | 1471 1/2 | 1800 | 1481 1/2 | 600 | 1481 1/2 |
| 1300 | 1473 1/2 | 1000 | 1481 1/2 | 1700 | 1481 1/2 |
| 1700 | 1473 1/2 | 1100 | 1481 1/2 | 600 | 1481 1/2 |
| 700 | 1473 1/2 | 600 | 1481 1/2 | 1600 | 1481 1/2 |
| 500 | 1473 1/2 | 300 | 1481 1/2 | 2500 | 1481 1/2 |
| 700 | 1473 1/2 | 800 | 1481 1/2 | 1400 | 1481 1/2 |
| 900 | 1471 1/2 | 800 | 1481 1/2 | 800 | 1481 1/2 |
| 200 | 1473 1/2 | 900 | 1481 1/2 | 1000 | 1481 1/2 |
| 400 | 1471 1/2 | 1200 | 1481 1/2 | 1000 | 1481 1/2 |
| 100 | 1473 1/2 | 1000 | 1481 1/2 | 6000 | 1481 1/2 |
| 1600 | 1471 1/2 | 500 | 1481 1/2 | 1800 | 1481 1/2 |
| 1000 | 1473 1/2 | 3200 | 1481 1/2 | 300 | 1481 1/2 |
| 1000 | 1471 1/2 | 600 | 1481 1/2 | 800 | 1481 1/2 |
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| 2100 | 1473 1/2 | 1100 | 1481 1/2 | 700 | 1481 1/2 |
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| 2800 | 1473 1/2 | 100 | 1481 1/2 | 1400 | 1481 1/2 |
| 1400 | 1473 1/2 | 200 | 1481 1/2 | 1200 | 1481 1/2 |
| 400 | 1477 1/2 | 800 | 1481 1/2 | 800 | 1481 1/2 |
| 2100 | 1473 1/2 | 700 | 1481 1/2 | 1700 | 1481 1/2 |
| 700 | 1477 1/2 | 2000 | 1481 1/2 | 2200 | 1481 1/2 |
| 1000 | 1473 1/2 | 1100 | 1481 1/2 | 3300 | 1481 1/2 |
| 1800 | 1481 1/2 | 500 | 1481 1/2 | 800 | 1481 1/2 |
| 700 | 1481 1/2 | 200 | 1481 1/2 | 1400 | 1481 1/2 |
| 400 | 1481 1/2 | 800 | 1481 1/2 | 100 | 1481 1/2 |
| 2500 | 1481 1/2 | 100 | 1481 1/2 | 700 | 1481 1/2 |
| 1300 | 1481 1/2 | 100 | 1481 1/2 | 800 | 1481 1/2 |
| 1200 | 1481 1/2 | 400 | 1481 1/2 | 100 | 1481 1/2 |
| 500 | 1481 1/2 | 100 | 1481 1/2 | 3300 | 1481 1/2 |
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| 100 | 1481 1/2 | 100 | 1481 1/2 | 1000 | 1481 1/2 |
| 400 | 1481 1/2 | 200 | 1481 1/2 | 400 | 1481 1/2 |
| 100 | 1481 1/2 | 100 | 1481 1/2 | 800 | 1481 1/2 |
| 200 | 1481 1/2 | 100 | 1481 1/2 | 1300 | 1481 1/2 |

Volume Study in Union Pacific, Showing 39,300 Shares Sold from 149 1/2 to 150, Checking the Rise.

will probably find a small rivulet running quietly on its way. The stream is so tiny that you can place your hand in its course and the water will back up. In five minutes, however, it overcomes this resistance by going over or around your hand. You fetch a shovel, pile dirt in its path, pack it down hard and say, "There, I've dammed you." But you haven't at all, for the next day you find your pile of dirt washed away. You bring cartloads of dirt and build a substantial dam, and the flow is finally held in check.

It is the same with an individual stock or the market. Prices follow the line of least resistance. If Reading is going up someone may throw 10,000 shares in its path without perceptible effect. Another lot of 20,000 shares follows; the stock halts, but finally overcomes the obstacle. The seller gives another order—this time 30,000 shares more are thrown on the market. If there are 30,100 shares wanted at that level, the stock will break through and go higher; if only 29,900 shares are needed to fill all bids, the price will recede because demand has been overcome by supply.

It looks as though something like this happened in Reading on the occasion referred to. Whether or not manipulative orders predominated does not change the aspect of the case. In the final shuffling the weight was on the down side.

The public and the floor traders do not stand aside while the manipulator is at work; nor is the reverse true. Everybody's stock looks alike on the tape. The ticker plays no favorites.

When a stream breaks through a dam it goes into new territory. Likewise the breaking through of a stock is significant for it means that the resistance has been overcome. The stronger the resistance the less likelihood of finding further obstacles in the immediate vicinity—dams are not usually built one behind the other. So when we find a stock emerging into a new field it is best to go with it, especially if, in breaking through it, it carries the rest of the market along.

While much can be learned from the reports printed in the dailies mentioned above, the tape itself is the only real instruction book. A live tape is to be preferred, for the element of speed with

which the ticker prints is no small factor. The comparative activity of the market on bulges and breaks is a guide to the technical condition of the market. For instance, during a decline, if the ticker is very active and the volume of sales large, voluntary or compulsory liquidation is indicated. This is emphasized if, on the subsequent rally, the tape moves sluggishly and only small lots appear. In an active bull market the ticker appears to be choked with the volume of sales poured through it on the advances, but on reactions the quantities and the number of impressions decrease until, like the ocean at ebb tide, the market is almost lifeless.

Another indication of the power of a movement is found in the differences between sales of active stocks, for example:

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1000 . 180 . $\frac{1}{8}$. 500 . $\frac{3}{8}$. 1000 . $\frac{1}{2}$

This shows that there was only 100 shares for sale at 180 $\frac{1}{8}$, none at all at 180 $\frac{3}{4}$, and only 500 at 180 $\frac{3}{8}$. The jump from $\frac{1}{8}$ to $\frac{3}{8}$ emphasizes both the absence of pressure and persistency on the part of the buyers. They are not content to wait patiently until they can secure the stock at 180 $\frac{1}{4}$, they reach for it, and finding themselves clutching the air, are obliged to reach higher. The same thing on the opposite side shows lack of support.

Each indication is to be judged not so much by rule as according to the conditions surrounding it. The tape furnishes a continuous series of motion pictures, with their respective explanations written between the printings. These are in a language which is foreign to all but Tape Readers, but anyone can learn a foreign language.

These volumes which we have been discussing are least liable to mislead when manipulation prevails, for the

manipulator is obliged to deal in large blocks of stock, and must continually show his hand. A complete manipulative operation on the long side consists of three parts: Accumulation, marking up, and distribution. In the case of a short operation the distribution comes first, then the mark down and the accumulation. No one of these three sections is complete without the other two. (For full details see my series on Manipulation in Vols. I and II of THE TICKER.)

The manipulator must work with a large block of stock or the deal will not be worth his time, the risk and expenses. The Tape Reader must, therefore, be on the lookout for extensive operations on either side of the market. Accumulation will show itself in the quantities and in the way they appear on the tape. Having detected the accumulation, the Tape Reader has only to watch its progress, holding himself in readiness to take on some of the issue the moment the marking up period begins. He does not buy it at once, because it may take weeks or months for the manipulator to complete his line; also, there might be opportunities to buy cheaper. Holding off until the psychological moment forces someone else to carry the stock for him—to pay his interest, so to speak. Furthermore, his capital is left free in the meantime.

When the marking up begins he gets in at the commencement of the move, and goes along with it till there are signs of a halt or distribution. Having passed through the first two periods, he is in a position to fully benefit by the third stage of the operation. In this sort of work a figure chart, which I described in Vol. I of THE TICKER, will help him, especially if the manipulative operation is continued over a considerable period—it will give him a bird's-eye view of the deal, enabling him to drop or resume the thread at any stage.

(To be continued)

A Talk on Municipal Bonds

By Arthur M. Harris*

of N. W. Harris & Co.

REALIZING that probably some of you are as well informed on municipal securities as I am, though probably many of you are not, I shall try to say what I have to say in a way that shall be as devoid as possible of technicalities. If I were talking with a competitor, we might branch off into technical lines; but in talking with you I shall try to avoid technicalities as much as possible.

I shall also refer in a general way to different conditions, for the reason that municipal securities are dependent altogether, so far as the authority for issuing the same is concerned, upon the constitutions and the laws of the different states; in the case of many cities, upon their charters; and in the cases of counties, school districts, etc., upon resolutions of their respective governing boards. So when I make a statement in many lines it will be a general statement, in which, if I were to go into the particular conditions as they exist in the different cities, you would find the facts to vary decidedly.

First, what is a municipality? A municipality, as we know it, is one of the political sub-divisions commonly known as a city. We speak of a county as a municipality, although, technically, it is not a municipality. We have the township—the town. In Pennsylvania it is known as a borough. Likewise, the county in Louisiana is known as a parish. Then there are school districts. We also have other municipalities which are not, strictly, municipalities. I refer particularly to drainage districts—levee districts—of which I shall speak again a little later on.

We know what a railroad does when it needs to borrow money; it may issue stock, it may borrow temporarily from a bank, but we read every day in the

papers of this issue and of that issue of railroad bonds being "brought out." They are the "promise to pay" of the railroad. The same way with industrial corporations. The merchant signs a "promise to pay," and we designate it as Commercial Paper. Now a municipality, wishing to borrow, issues its "promise to pay," and that is a municipal security.

In some of the Western cities we have what are known as county or city warrants. These are simply promises to pay at no fixed date; they are issued in payment for salaries sometimes; usually they are issued for contract work done, and are payable when the municipality is in funds for their redemption. They are usually called in in their numerical order as the taxes come in with which to pay them. They are issued usually in anticipation of taxes. But the true municipal security is spoken of generally as a bond issued by a municipality, and it is of that character of security that we shall speak more particularly.

I have already stated that the authority for issuing municipal bonds is found, first, in the constitution of the state; second, in the laws, which, of course, must conform. They may be passed, the legislature in passing them may think that they conform to the constitution, and they are supposed, of course, to do so. In any event, in order that the bond may be one which you and I would care to take, it must be a bond based upon a law which is constitutional, and, of course, upon the city charter in many cases. New York City has a special charter, about which we have heard a great deal of late, and many of us are hoping that they are going to give us a new one. The ordinances and resolutions passed are based upon the laws or upon the city charter, as the case may be.

The common term, in speaking of constitutional limitations is that of the

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constitutional limit of debt. That is, we find in a very large number of cities that the constitution provides that no municipality shall create a debt in excess of a given percentage of the assessed valuation. The percentage varies. We find it in Louisiana as low as 2 per cent. We find it in Kansas as high as 30 per cent. The assessed valuation, of course, you will understand may be a small percentage of the actual value, or it may be a large percentage of the actual value, which is supposed to be the selling price of the property. Taking these different ratios of assessed valuation as compared to actual value, we find it on real estate in New York 100 per cent., Philadelphia 100 per cent.—(these are according to the latest statistics that I have been able to obtain)—Boston 100 per cent., Baltimore 100 per cent., Detroit 100 per cent., Buffalo 75 per cent., New Orleans 60 per cent., St. Louis 60 per cent., San Francisco 50 per cent., Milwaukee 50 per cent., Chicago 15 per cent. We find Chicago with a very low assessed valuation.

Now the percentage of issue allowed in the constitutions varies in different states, from 2 per cent. in Indiana to 30 per cent. in Kansas. Here are just a few of the different limitations: New York, 10 per cent. of the real estate assessment; Pennsylvania, 7 per cent. of real and personal; Ohio, 8 per cent. of real and personal; California, 15 per cent.; Missouri, 5 per cent. of taxable property; Indiana, 2 per cent.; North Carolina, no limit—each issue requires legislative enactment; Michigan, subject to any limitation passed by the legislature; Kansas, 30 per cent., and often in some cases larger than that. We also find in some cases that a vote is necessary in order that a bond may be legally issued—a vote in many cases of all citizens entitled to vote; then again we find in some cases that only tax-payers can vote, and it requires the male and female. There is a case where the suffragette has an opportunity to exercise her privileges.

In issuing a municipal bond it must be issued for strictly municipal purposes. Bonds issued for the construction of a water-works plant, for the

erection of school-houses, and for construction of sewers, I would say, are the most popular. Then, they are also issued for city, county and other public buildings and for various improvements. For example, in New York City we have bonds issued for docks and ferries and bridges, and in recent years, they have been issued for subways. In some Western places they are issued for the construction of dams. I remember, speaking of that class of bonds, a stenographer we had once was given a letter which ran about like this (for some reason we did not care to buy the bonds): "We do not care to buy the Dam bonds." She asked one of the boys in the office, "How do you spell it?" He, like many another fellow would, said, "D-a-m-n." And so she wrote it. Fortunately the letter was caught before it went out.

Now if we go back some years and into certain sections of the country we find that the spirit seems to have been: For how long can we defer payment of our debt? How long can we put it off? But in conservative New England we find that the spirit there always seems to have been: How soon are we going to be able to get out of debt?—municipalities like New Haven, you see, indicating the character of the people residing there. I am very glad to state that in recent years there seems to be a growing tendency all over the country to issue bonds which may be paid off as early as practicable. They are, therefore, issuing a great many of what are known as instalment bonds; that is, a certain amount of the total issue is made payable each year or, at any rate, periodically, until the entire amount is liquidated.

Then, of course, you have a provision for sinking fund. In some cases a bond may run for a period of twenty years, and often with a sinking fund provision, the result of which is that as the taxes are collected each year, a certain proportion is set aside as a sinking fund, the same as with a corporation, for liquidation of the debt at its maturity.

Some of you may ask: Why issue a long-time bond, burdening the tax-

payers with a heavy interest charge each year? The answer is this: You issue bonds for the purchase of property for a park, for the construction of a water-works, for the construction of a sewer, or public buildings. These are not built or purchased for the present generation alone; they are for future generations, and therefore it is right that future generations should help pay for them. Then again you will readily realize that a very large, extensive and expensive improvement would make it impossible for a municipality to pay in many cases the entire amount at once. The burden would be too heavy, in fact, unbearable.

I have said that the municipal bond must be issued for strictly municipal purposes. Now, have bonds ever been issued for any other? Why, certainly. There have been issued in this country a very large amount of bonds for purposes which were not strictly municipal, the largest amount that has ever been issued for any one illegitimate purpose being bonds issued in the aid of railroads, and known as Railway Aid Bonds. Those bonds, of which there were large amounts, running into the millions, have been issued by cities and other municipalities, the object being to encourage the building of railroads. As these bonds were issued, the proceeds therefrom have been turned over to railroads, and, of course, in other cases, the bonds themselves turned over to the railroads, the latter making such disposition thereof as to them might seem best.

Other bonds issued for purposes not strictly municipal have been bonds issued for the encouragement of the sugar beet industry in some sections of the West, more particularly Nebraska. Then again they issue bonds for various manufacturing purposes. Where a municipality wished to bring a certain industry into their town in order that it might give employment, they issued bonds and turned the money over to the manufacturing concern, for example, and that was a bond issued not for municipal purposes and has not been recognized as a proper bond for a municipality to issue. There have also been issued bonds for

these illegitimate purposes, but issued by means of a subterfuge, so that while the bonds were apparently issued for strictly municipal purposes, the facts were to the contrary.

I have in mind an issue of bonds which we ourselves purchased in Michigan, some twenty years or so ago. Those bonds were brought to us and offered as water-works bonds. The resolutions which the official board had passed described the bonds as water-works bonds, the bonds themselves were cited on their face that they were issued for water-works purposes. There was not a thing that could be found on the official records to lead an attorney or buyer to suspect for one moment that those bonds were anything but a straight water-works bonds issued by that city or town. The facts were that it was understood by everybody that they were not going to build any water-works; that they wanted to get this money; they had issued the bonds as a subterfuge, and as the bonds were sold and the money paid over, they in turn turned it over to a contractor. I happened years later to get acquainted with this particular contractor. He used to laugh at it, telling how we bought water-works bonds and he got the money. In that case the town was obliged to pay, because the innocent holder of those bonds had a certified copy of the records to produce. Of course, had a tax-payer seen fit to go in and institute proceedings against the officials for misappropriation of funds, there is no doubt in my mind but what the officials would have been indicted.

There is also one case, rumor has it, where bonds were issued for apparently a municipal purpose, and the proceeds turned over to a political party. I do not assume to say that that was true; it is rumored to have been true.

In Kansas a great many bonds were issued in the aid of railroads, and the bonds themselves, while not being paid, were paid indirectly in this way: In the state of Kansas there was passed a refunding law, which was one of the strictest laws ever placed upon the statute books. There they issued a great many bonds in the aid of rail-

roads, and then immediately issued a refunding bond. A refunding bond is a bond issued at the expiration or maturity of a given bond to take its place. Now a bond, of course, may be issued by the surrender of a bond before its maturity, and Kansas did that in a great many cases. The bonds were issued as railroad aid bonds under the law that existed, and then they turned around and surrendered the railroad aid bonds and issued a refunding bond under their strict law there, the bonds themselves being certified to by the State officials. And those bonds have been most generally paid.

I have mentioned the fact that there are certain municipalities which are not true municipalities—levee and drainage districts. Take the levee district of Louisiana, for example. A large district which was in need of drainage might embrace several municipalities, and under the law that was organized into a drainage district, and bonds issued by that drainage district, payable from taxes levied upon all of the property within that particular drainage district. In some sections of the South, also, where they have found it necessary to build levees to hold back the water flow, they have organized under the law there what are known as levee districts, and have issued levee bonds payable from taxes levied upon the entire levee district.

Then there is another class of bonds which are not strictly municipal bonds, known as special assessment bonds. Take Chicago again, for example. In Chicago, when a street is improved—perhaps gutters laid, paved, curb put in—the improvement is paid for by taxes levied upon the property benefited, that is, the abutting property. Instead of issuing a bond for which the City of Chicago as a whole is liable, they have issued what are known as special assessment bonds. And these bonds recite on their face that they are issued for the improvement of a given street from such a point to such a point, and that they are payable out of taxes levied upon that particular property. Those bonds run for five years, drawing interest, the interest and one-fifth of the principal being pay-

able each year. They have more or less trouble with those bonds, that is, with some of them, in Chicago, for this reason: A contract would be given for the improvement of a large part of the streets in a given territory. Before the contractor could complete the work over the entire district, the first instalment of these special assessment bonds would fall due, and the tax-payer would step up and say, No, gentlemen, I do not propose to pay my tax. You have not even improved my street. Then again, there are cases where the improvement was made way out in an outlying district where the improvement was never needed, and the tax-payer would go into Court and fight the collection or the payment of the taxes.

In Indiana they have a better law than has prevailed in Illinois. There the improvement would be made and the tax levied and payable in one instalment, but the tax-payer, in order to have time in which to pay, would go to the proper officials, and by signing a waiver and consent to the improvement, would be given ten years in which to pay, with interest added, of course. You can see that having done that it served as an estoppel for any Court proceedings on his part at any time to avoid the payment of the tax. In New York City where an improvement of that kind is made, the contract is given, the work is done and the assessment is levied against the particular property benefited. And when that tax is finally levied—it may not be for a year or so after the work has been practically completed, yet at the same time when the tax is actually levied the tax-payer under the law must pay that tax within sixty days; although the law does give him this privilege, and that is to pay in instalments of fifty dollars or multiples thereof over a period of three years. But so far as the municipal bond is concerned, or the security issued to raise funds in payment therefor, the city issues a straight interest bond, known as an assessment bond, but unlike the bonds which I have described as issued in Chicago, it does not state that it is issued to pay for macadami-

zing "J Street from First to Third Streets" or anything of that sort.

Why is a constitutional limit of debt of any value? It is of value both to the tax-payer and to the bondholder. If you buy a stock in a given company, it is true that they cannot issue any more stock without the consent of the stockholders, but if you are a minority stockholder you are very helpless in case the majority want to issue the stock. If it is seen fit to issue a mortgage bond, once having the authority they can make the mortgage just as big as it is possible to make it, provided they can get somebody to take the bond. Of course, we are heading that off somewhat in New York State now under the law providing for the appointment of the Public Service Commission. But what are the facts when you come to a municipality with a constitutional limit? The tax-payers know that the officials can go just so far and no farther in the creation of debts, and that is a given percentage of the assessed valuation. Often it may be from two to thirty per cent. He knows that when the officials have reached that limit there is no way of increasing the debt, because Bloomington, Ill., for example, in order to bring that about, would have to vote an amendment to the State constitution of Illinois. The value to the bondholder is apparent. The bondholder knows just exactly how many bonds that municipality can issue. In Chicago for a great many years the assessed value of the city was increased scarcely a dollar. That was done because the leading men of Chicago took the stand that no assessor could hold office in that city unless it was understood that he was going to keep the assessment down. They took the position that they did not care what the rate was, and that they were willing to pay as they went. When they got up to their five per cent. they stopped. They did not propose to stand for extravagance and therefore the rate at one time, as I remember it, was in the neighborhood of eight or ten per cent. of the assessed value. That was the tax rate, but the assessed value in Chicago, you must remember,

was very low. The assessed value, according to the latest figures, is to-day only five per cent. of the actual value. So that while the rate might be high, you can see that the rate, so far as the percentage of the actual value is concerned, was really very low.

Now the tendency of legislation has been to restrict municipal officials more and more in the matter of creation of debt, to protect, in other words, the bondholders. Judge Dillon, who is probably the best authority on municipal securities, writes, "The Supreme Court of the United States has upheld the right of the holder of municipal securities with a strong hand and has set a face of flint against repudiation. Even when made on legal grounds it may be found by said Court to have been the result of manipulations which have been deceitful and fraudulent. Further, the value of such securities is largely due to the Court's adjudication in respect thereto, and the Supreme Court now warns officials of all municipalities against such manipulation, which is no fault of the public, that it will stand firmly by the decrees that it has so frequently established."

The United States Government recognized the importance of protecting the investors and at the same time put a check upon municipal officials when, back in the '80s, it passed a law applicable to all of the territories then existing, limiting the debt which any municipality could create in any one of the territories of the United States. My recollection is that it was four per cent.; it may have been five per cent.; it was a low percentage. In some cases there may be more than what is apparently a constitutional limit of debt. For example, we will take Chicago again. Chicago is in Cook County. Cook County is limited to five per cent. debt; Chicago is limited to five per cent. debt. Then they have their park districts there—West Park, Lincoln Park, South Park. They are allowed to issue a debt up to five per cent. of their assessed value. Then, again, there is the Chicago drainage district, which covers the property of the City of Chicago and the drainage territory outside of that drainage dis-

trict is entitled to a five per cent. debt. You can readily see that there may be on any given section of Chicago which

happens to lie within these four municipal districts a debt of 20 per cent. of the assessed valuation.

(To be continued.)

How Boston Speculates

By J. F. P.

ALMOST on the stroke of 10 o'clock in the morning, when business begins on the New York Stock Exchange, the tickers in the Boston brokerage houses start to reel off the New York quotations. From then until 3 o'clock in the afternoon, when the market closes, it is a continuous performance.

In Boston, a customer can turn in an order and have it executed on the floor of the New York Stock Exchange almost as quickly as can a customer in the office of a New York broker.

Before the quotation boards in Boston offices there can always be found the groups of speculators, the chart men, the tape readers—wise ones who in their own minds are “always right” on the market. They are able to catch the market in New York stocks just as readily as though they were not hundreds of miles from the actual scene of operations.

So far as Boston is concerned there would not be any speculation in the New York quotations were it not for the telegraph. The Boston Stock Exchange and the New York Stock Exchange are linked together by a network of wires, and the New York houses reach out over the country with another big group of wires. Three houses in Boston maintain fourteen private wires to New York. A single Boston house requires five New York wires to handle its business in active markets.

The telegraph operators in the stock exchanges, trained by years of service, flash the quotations back and forth the instant they are off the lips of the brokers who make them. In booths on the floor of the exchange these telegraphers stand, and with one

hand on the telegraph instrument they signal with the other hand to the broker who stands in the crowd on the floor. The broker nods, holds up his fingers in a cabalistic sign, moves his hand upward or downward and viciously saws the air. The operator nods his head and clicks his instrument. At the other end of the wire the listening operator signals to his employer, and in the fraction of a second the Boston broker knows that Amalgamated is selling in New York at say 78½. Oftentimes they are several minutes ahead of the ticker, which in periods of great activity cannot keep up with the transactions and is apt to be five minutes or more behind the market.

The Boston broker who has learned by the finger code at what price Amalgamated is selling in New York does not go shouting it from the housetops. It costs him big money for wires and operators to get the information. He lays low and bides his opportunity. Perhaps some other Boston broker, not wise to the New York quotation, has an order to sell 100 Amalgamated at 78¾; quick as a flash the wire broker has bought it. Instantly he signals his operator and in a minute or less he has sold that 100 Amalgamated in New York at 78½ and is \$37.50 to the good on the transaction.

Arbitraging they call it. It is the method by which stocks maintain the same level on the two exchanges. Steel and Copper will sell at the same price on the two exchanges, or else the arbitrage brokers will buy and sell until they do.

The story is told of the Boston broker who had the first private wire to New York. It was when Atchison

was an infant and the stock was being kicked around pretty lively. That broker made a handsome fortune trading in Atchison over his wire. He would buy Atchison in Boston at 14, chunks of it, and over his wire would sell it in New York at 18. When Boston got its mail the next day Atchison would rise in Boston and decline in New York and then he would buy in New York and sell in Boston. It was a cinch until other brokers both got wise, and got wires; then they took a hand in the game. Nowadays it is a nerve-wearing business with fractions of a second running into dollars and cents, and only those with natural aptitude and special training stand the ghost of a show at it.

In several brokers' offices in Boston one New York wire is used exclusively for "gossip." Over this wire comes the news, the tips, the wise sayings of brokers on the floor and the office statisticians; also the information from those omniscient chaps who are ever hearing "from a source in which I place absolute confidence," or "from inside information," that the market is going to have a tremendous rise or a dreadful drop.

In the day's work these fellows send over some wonderful and fearful stuff for the edification of Bostonians. If the market is weak they are full of dire forebodings. They hear that Harri-man is sick with the pip, and if the market is very rocky they send over word that he is dead. Should the market show a rising tendency, then they become imbued with very bullish sentiments. They hear that Harri-man is down town the picture of robust health. "This market is going very much higher," they say. "Would buy U. P. and S. P." "Buy Amalgamated." "This Reading looks good, and we are told that Pennsylvania is going to have a great rise." "Buy Atchison and Rock Island." Unhappy is the lot of the Boston speculator who reads the "gossip" that comes flashing over the wires from New York.

It is a peculiarity of Boston and New England folks that they buy stocks and bonds to have and to hold. In New

York they buy only to turn around and sell to the other fellow; sometimes they don't even go to the trouble of buying, but sell and then borrow with the expectation of buying back cheaper; but in Boston they buy and stick like leeches. They are a tough proposition when it comes to engineering a shake-out.

They say that there was once a New York broker who expressed his amazement one day after Boston had taken over some unusually large blocks of stocks by asking: "Where do those Boston fellows get all the money we take from them?"

It is perhaps difficult for New Yorkers to understand that they save their money in Boston. Their grandfathers saved, and their fathers saved, until now it has become an hereditary trait. Boston bought Atchison and Union Pacific long before New York did, they've got it yet and they are buying it every day now.

Although New York is the financial center of the country, the per capita wealth of Boston is greater than that of New York. Something like one-tenth of the total wealth of the country is centered in and around Boston. As dividends come in and savings accumulate, Boston folks are constantly seeking investments.

The born and bred Bostonian has an inherited antipathy to spending money, and about the only way to part him from his savings is to offer bargains in stocks and bonds. Thus it is that the speculative instinct is well developed in Boston, only they do not call it speculating. They call it investing. But any one who reads the Boston *Evening Transcript* can hardly fail to note the scrupulous fidelity with which it prints the stock quotations, guaranteed stocks, investment stocks, speculative stocks, curb stocks—the *Transcript* doesn't miss a single thing. The editors realize that the High Brows up in the Back Bay want to know what's doing in the stock market.

It is simply astounding the amount of money the Boston and New England folks can dig up once they get going. When Sugar was quoted be-

low par about a year ago and wise guys said it would go to 70 sure, the Back Bay folks came in. They knew all about Sugar even if the directors hadn't printed a statement in years, and if the price had stayed below par long enough, they would have taken the whole capital stock. They've got that Sugar yet, got pretty nearly all they have been buying for years back, and the wonder is that any floating supply of Sugar is left in the Street.

When the panic came and the good New England folks were able to get their bearings, the stock exchange and investment houses in Boston were deluged with business. It seemed as though every school teacher, doctor, lawyer, college professor, merchant, in fact nearly everybody in New England had got the fever and wanted 10 shares of Union Pacific, 10 shares of Southern Pacific, 3 shares of American Locomotive, 10 shares of Pennsylvania and five shares of Amalgamated, and they sent the money along with the orders. For weeks the postoffice was clogged with bulky packages containing stock certificates that went to all parts of New England. It might be well for the over-confident bears, who sell what they haven't got, to ponder on this, for very few of those certificates have come back, and a good 90 per cent. of them never will come back. If they should they will be accompanied by more cash and orders to purchase more stocks of a different kind.

The other day the estate of one of the richest men in Boston was inventoried. It was found that he died possessed of 5,500 shares of Calumet & Hecla Mining Co. stock. He also had 10,000 shares of other mining stocks which were of no value save as wall paper—busted dreams of optimistic promoters. He bought the Calumet & Hecla and the other mining stocks for the same price, a few dollars a share. Calumet & Hecla sold at \$1,000 a share in the last copper share boom, but he never sold a share of his stock. It was a typical case.

You can meet any three men in Boston and two of them will have had the speculative craze for "coppers" at

some time or other. Safely laid away they have their collections of copper shares, good ones and poor ones. They cling to their possessions reverently; they cherish them all through life, although most of them have long since passed to that bourne of copper shares from which no money returneth. Hope dies harder with the owner of copper shares than it does with the seeker of eternal life.

One meets occasionally the men who took on 500 shares of Wolverine at \$5 a share, just as a flier, or 1,000 shares of Calumet & Arizona at \$1.50 a share, just to accommodate a friend. Excellent stuff to hold is that Wolverine and Calumet & Arizona; they sold up around \$200 a share a little over a year ago and paid \$20 a share per annum in dividends. But it seems to matter little to these old stockholders at what price their stock may be quoted on the stock exchange. They hang on with confidence unimpaired even though the price of the metal drops, dividends are reduced and the price of their stock is cut in two. They discuss the future of their favorite mine full of enthusiasm. They know that though the price for the metal may be low now, it is sure to rise; if the metal accumulates, sooner or later electrical work will pile up. Water powers must be harnessed, the railroads must electrify their lines, and it is the surest thing ever that electric motors cannot mote without copper. Isn't there some likely low-priced copper that they can buy?

In Boston they pay a good deal of attention to the old-fashioned rule—"Never buy what you can't pay for, and never sell anything you haven't got," and it works out very well indeed. Perhaps they have learned this lesson from trading in coppers, for it is altogether likely that no surer method has as yet been devised for parting the fool from his money than to buy copper shares on margins. Fortunately there is very little trading in Boston copper shares on margin. The par value of the Boston copper stock is generally low—\$5, \$10, \$15 and \$25—and the stocks on an average sell at

such low prices that transactions are mostly for cash. Many and costly lessons have taught Boston the folly

of margin transactions in "coppers." New York and the west have yet something to learn concerning this.

THE public loses more money every year through bucket-shops, get-rich-quick enterprises, fake mining promotions and other swindling propositions than it does through legitimate Wall Street speculation.

Promoters of fake schemes not only sell their wares through circularizing on a tremendous scale, but they have their agents in towns and cities throughout the country. These agents canvass everybody from the office boy and the servant girl up, the amount of money derived from these sources being something appalling. One mining promoter spent \$500 for an advertisement in a New York daily and got back \$78,000 by mail the following week. The promoters of one fraudulent electric railroad which was thus widely advertised are said to have filched between five and six million dollars from the public.

Many of these screaming advertisements are placed in the very newspapers whose financial editors are loudest in their denunciation of Wall Street. The cause of this antagonism can probably be traced to the editor's own failure to make a success of speculation. Some people when they are licked turn around and curse the thing or the person which licked them, instead of cursing themselves for their own lack of knowledge and ability.

The attacks on Wall Street are mostly

based on the ground that margin trading, especially short selling, is pernicious. Those who do not let their prejudices run away with their judgment realize that the entire business of the world is conducted on a marginal basis, margin being merely the Wall Street name for credit.

Let those who wish to eliminate trading on credit consider what the effect would be if they were obliged to conduct their own business on this basis. Without the promissory note and the 60 or 90-day method of billing goods, the merchant would be obliged to shut up shop.

The world's business is done on credit and the methods of the Stock Exchange do not differ in principle but only in detail.

Were it not for the Stock Exchange, the investor who wished to dispose of his securities would be forced to advertise them in the papers or make a house-to-house canvass in order to find a buyer. Progress would cease for the simple reason that railroad and industrial corporations would have no means of marketing securities with which to supply them with funds. The press and the political agitators have gone so far in their crusade that we should not be surprised to hear them answer: Very well, then, let the railroads stop running and the factories close down; we must kill speculation at any cost.



Criticism of Methods

Another Successful Amateur Account

NOTE: We shall be glad to criticise operating methods of traders who send us their plans or records. No names will be mentioned. Unsuccessful accounts are especially desired

A CANADIAN reader writes:
I was interested in the "Record of a Novice" and your comments in the January issue, and thought my experience might prove of some interest to some of your other readers.

I enclose complete record of my transactions covering about a year.

The brokerage charges were $\frac{1}{4}$ of 1%, or $\frac{1}{2}$ of 1% for the round turn.

The transactions were nearly all with one firm of brokers.

I was over 300 miles away from the exchange.

I received advice from a New York firm about September 2nd, 1908, to be on the lookout for a sharp reaction. My accounts were showing a good profit but I determined to hold for the long pull, as I had done in May of the same year. On September 22 I received a telegram from my brokers that the market was looking dangerous. I immediately sold out everything. This I consider my greatest mistake.

"AN AMATEUR."

After boiling down the record and arranging so that results are easily read, it shows as follows:

The chief criticism we have to make of this account, is that you bought 5 shares during the panic and gradually increased your line until in November, one year later, you were carrying 270 shares of stock. If you had made your plunge in November, 1907, by buying 80 shares of "Soo" on 40 points margin (this would have margined it down to 30) the net profits on the day you sold out your "Soo," November 4th, would have been about \$4,200. The time to take on your biggest commitments is "when things are so rotten nobody wants 'em."

After making this trade you gradually increased your line in small lots, until April 20th, 1908; on which date

you purchased 50 Canadian Pacific at 150 $\frac{5}{8}$ on margin. Dividing your speculative period into two parts, namely, before and after you began buying on margin, we find that the first 14 trades averaged only 3 shares each, the average profit on each trade being 22 points. After your marginal operations began you made 15 trades of an average of 30 shares each, these trades showing an average profit of 7 $\frac{1}{2}$ points.

In order to show graphically the advantage of making your greatest commitments during or subsequent to a panic, we submit the following tabulation:

First section, including purchases for cash only, 14 trades x 3 shares x 22 points = 924 units

Second section, marginal operations, 15 trades x 30 shares x 7 $\frac{1}{2}$ points = 3375 units

If first section had consisted of 30 shares, results would have been 9240 units

Your method of increasing commitments as the market advanced has been right in line with our claim in the January number, that the public was monkeying with the Wall Street gun.

Your account is an inverted pyramid.

No one could have shaken you out of your initial purchases which were fully paid for, nor could they have done so if you had bought a larger quantity of stock during the panic on a margin equal to 50% of the market value. But on November 5th, with resources of about \$6,000 you were carrying 270 shares, giving you a margin of about 22 points. A 15-point break at this juncture would have left you only 7 points and with a margin call from your broker confronting you.

The fellow who skates over thin ice

Statement of Transactions

A Striking Example of Methods Followed by the New York

| Date. | Bought. |
|---------------------|-------------------------|
| Nov. 20, 1907 | 5 Soo.@ 70 |
| Dec. 3 | 1 L. of Woods.....@ 71½ |
| Jan. 2, 1908 | 2 Steel@ 26¼ |
| Jan. 22 | 1 Steel@ 29½ |
| Jan. 31 | 1 Mackay@ 56½ |
| Jan. 31 | 1 Mackay@ 54½ |
| Jan. 31 | 1 Mackay@ 54 |
| Feb. 14 | 1 So. Pac.@ 68 |
| Mar. 4 | 1 So. Pac.@ 68¾ |
| Mar. 13 | 7 Can. Pac.@ 144¾ |
| Mar. 24 | 6 Mex. L & P.@ 51 |
| Apl. 7 | 10 Twin City@ 84½ |
| Apl. 7 | 3 Twin City@ 85 |
| Apl. 10 | 2 Can. Pac.@ 155¾ |
| Apl. 20 | 50 Can. Pac.@ 155¾ |
| Apl. 29 | 5 Un. Pac.@ 137¼ |
| May 14 | 2 Ill. pfd.@ 87¾ |
| May 22 | 5 Ill. pfd.@ 88¼ |
| May 22 | 5 Mackay@ 60½ |
| June 5 | 25 Atch.@ 82¼ |
| July 25 | 50 Un. Pac.@ 151¾ |
| July 29 | 50 Amal.@ 74¾ |
| Sept. 8 | 3 Loco.@ 53¼ |
| Sept. 12 | 2 Loco.@ 46¼ |
| Sept. 19 | 2 Loco.@ 45½ |
| Sept. 25 | 10 Loco.@ 46¾ |
| Sept. 28 | 50 Amal.@ 74½ |
| Sept. 28 | 90 Loco.@ 46¼ |
| Oct. 2 | 2 Loco.@ 46¼ |
| Oct. 16 | 1 Loco.@ 49¾ |
| Nov. 4 | 50 Amal.@ 82¾ |
| Nov. 6 | 50 Loco.@ 56¼ |

Transactions by an Amateur

Transactions Which Came Into the Market During the Late Panic

| Sold. | Points Net* | | Dollars. | |
|---------------------------------------|-----------------|---------------------|------------|----------|
| | Loss. | Profit. | Loss. | Profit. |
| Nov. 4, 1908@ 123 $\frac{5}{8}$ | | 53 $\frac{1}{8}$ | | 165.63 |
| Nov. 17@ 95 $\frac{3}{8}$ | | 24 $\frac{3}{4}$ | | 24.25 |
| Apl. 29@ 36 $\frac{1}{4}$ | | 9 $\frac{1}{2}$ | | 19.00 |
| Apl. 29@ 36 $\frac{1}{4}$ | | 6 $\frac{1}{4}$ | | 6.25 |
| Nov. 5@ 75 | | 18 | | 18.00 |
| Nov. 5@ 75 | | 20 | | 20.00 |
| Nov. 5@ 75 | | 20 $\frac{1}{2}$ | | 20.50 |
| Oct. 22@ 109 $\frac{1}{4}$ | | 40 $\frac{3}{4}$ | | 40.75 |
| Oct. 22@ 109 $\frac{1}{4}$ | | 39 $\frac{7}{8}$ | | 39.87 |
| Oct. 30@ 175 | | 29 $\frac{7}{8}$ | | 209.12 |
| July 30@ 67 $\frac{1}{2}$ | | 16 | | 96.00 |
| July 30@ 91 | | 6 | | 60.00 |
| July 30@ 91 | | 5 $\frac{1}{2}$ | | 16.50 |
| July 30@ 170 $\frac{3}{8}$ | | 14 $\frac{1}{4}$ | | 28.50 |
| July 25@ 168 | | 11 $\frac{3}{8}$ | | 593.75 |
| Sept. 22@ 157 $\frac{1}{4}$ | | 19 $\frac{1}{2}$ | | 97.50 |
| Sept. 22@ 87 $\frac{3}{8}$ | $\frac{3}{4}$ | | 1.50 | |
| Sept. 22@ 87 $\frac{3}{8}$ | 1 $\frac{1}{4}$ | | 6.25 | |
| Sept. 22@ 67 | | 6 | | 30.00 |
| Sept. 22@ 85 $\frac{3}{4}$ | | 3 | | 75.00 |
| Sept. 22@ 157 $\frac{1}{4}$ | | 4 $\frac{7}{8}$ | | 243.75 |
| Sept. 22@ 71 $\frac{3}{4}$ | 3 $\frac{1}{8}$ | | 156.25 | |
| Nov. 10@ 56 $\frac{7}{8}$ | | 3 $\frac{1}{8}$ | | 9.38 |
| Nov. 10@ 56 $\frac{7}{8}$ | | 10 $\frac{1}{8}$ | | 20.25 |
| Nov. 10@ 56 $\frac{7}{8}$ | | 10 $\frac{7}{8}$ | | 21.75 |
| Nov. 10@ 56 $\frac{7}{8}$ | | 9 $\frac{5}{8}$ | | 96.25 |
| Oct. 31@ 78 $\frac{3}{4}$ | | 3 $\frac{3}{4}$ | | 187.50 |
| Nov. 10@ 56 $\frac{7}{8}$ | | 10 $\frac{1}{8}$ | | 911.25 |
| Nov. 10@ 56 $\frac{7}{8}$ | | 10 $\frac{1}{4}$ | | 20.50 |
| Nov. 10@ 56 $\frac{7}{8}$ | | 6 $\frac{3}{4}$ | | 6.75 |
| Nov. 10@ 86 $\frac{3}{4}$ | | 3 $\frac{3}{4}$ | | 187.50 |
| Nov. 10@ 56 $\frac{7}{8}$ | | $\frac{1}{8}$ | | 6.25 |
| | 5 $\frac{1}{8}$ | 417 $\frac{5}{8}$ | 164.00 | 3,271.75 |
| | | Tax | 9.88 | |
| | | Interest | 224.10 | 397.98 |
| | | | | 2,873.77 |
| | | Add dividends | 233.50 | |
| | | Net Profit | \$3,107.27 | |

*Commission charges $\frac{1}{2}\%$ for the round turn.

and gets safely to the other side may congratulate himself, but his escape will doubtless lead him to take a greater chance on a subsequent occasion. Nearly every trader, experienced or inexperienced, at some time or other puts himself in a position where he can be soundly trounced. That is why so many of them lose.

Judging from the way you have increased your commitments your recklessness will probably increase until you are trading on a 10 point margin without a stop order, thus placing yourself in an exceedingly vulnerable position.

We venture to say that you did not discontinue trading on November 10th. As you do not mention subsequent trades, we presume you have made some losses which you are not so frank to confess. We are much interested in knowing about the losing trades and hope you will send them to us.

If you have not already met with misfortune and do not immediately mend your ways, it is our opinion that you will lose all the profits you have made, together with all the margin you have at your command. If it is not too late, we trust you will protect all future trades with stop orders, unless you buy them in a panic on very heavy margins.

The other remedy, if you must be in the market all the time, is to return to your 1, 2 and 5 share lot basis.

Not a single trade has been made on the short side. You cannot expect the market to go on advancing indefinitely, hence you must either study short selling or deposit your money in a safe trust company and await the next violent break.

Your work in Locomotive Common was the most professional of all your trading. You bought it on the decline and on September 28th, when it apparently looked as though it had struck bottom you bought your largest quantity, only $2\frac{1}{4}$ points from the low record price on this swing, which shows that you have the right kind of nerve. Within six weeks you turned these 160 shares over at a profit of

more than \$1,000, your selling point being $2\frac{1}{4}$ points from the highest on the bulge. This operation leads us to believe that you can become a very successful trader once you learn the value of caution. Your distance from the market was evidently an advantage, as it enabled you to watch the broad swings of the market and not be shaken out by the small daily fluctuations.

When your broker wired you in September that the market looked dangerous, you were susceptible because of your overloaded position. Observe that you were not shaken out of the stocks which you bought during and immediately after the panic, but the Union Pacific, Amalgamated and Atchison which you held on margin were thrown over on what turned out to be the lowest day of the September break.

Another mistake was in trying to mix some other fellow's brains with your own. If all your purchases were made solely on the advice of your broker, you were justified in taking his advice to sell out. A broker continually has his eye close to the knot hole in the Wall Street fence and is, therefore, likely to see only what is transpiring on the other side. There are always two sides to the market and any one who stands above and at some distance from the fence sees what is happening on both sides.

You are paying too high a commission rate. Better communicate with a New York Stock Exchange house or branch office located in Montreal or Toronto. These houses will only charge you $\frac{1}{8}$ each way on New York stocks.

We hope you are not now trading in 500 or 600 shares on a 10-point margin, thus placing yourself where everything can be taken away from you at once. As the original capital employed in your operations included about \$1,120 cash and \$2,130 worth of securities, a total of \$3,250, you have made nearly 100% net profit. If you can do this every three years, by November, 1919, your \$3,000 will have grown to \$48,000. Do you not think it would pay you to become a Specialist in Panics?

How I Studied Securities

I CAME down to Wall Street when I was nothing but a kid, and got a job with a small New York Stock Exchange house as messenger. The firm did a very limited business, and a great deal of my time was spent loafing about the office waiting for something to turn up.

One day the boss said to me:

"If you expect to continue in this business you ought to study something about the various companies whose stocks are traded in on the Exchange. For instance, if you are asked the capital of Atchison, where the road runs and some of its characteristics, you would be at a loss to reply, unless you were familiar with the subject. All this matter can be found in Poor's Manual and the Chronicle, and you will not only find it very valuable in the future but extremely interesting as you progress in your studies."

Taking the cue, I began absorbing railroad statistics and making a systematic study of the principal railroads. I took one property at a time, drew a map of the main line and of its branches; studied the points where its traffic originated; tabulated its mileage; figured its earnings, debt, capitalization, etc., per mile; studied its past history and figured average earnings per mile over a period. From all this I got a line on what it should do in the future.

I studied the financial condition of the road by examining its balance sheet, having previously secured a copy of the Anatomy of a Railroad Report, which showed me how to interpret the figures. This also helped me to estimate whether a company was devoting a fair amount to maintenance or whether the road was being allowed to run down at the heel. Of course I was pretty young and as this subject is more or less complicated, I made no pretension at being an expert, but I was learning something all the time, and in a general way soon began to figure out good opportunities.

Pamphlet reports from the various companies were easy to secure, and these gave me very exhaustive figures, more so, in fact, than any of the previously mentioned publications. To the ordinary

man there is nothing much dryer than a mass of statistics relating to railroad operation and finance, but I used to force myself through these long reports and tabulations until I got so I understood them; then they were comparatively easy. Railroad reports in those days contained no such elaborations as they do now; therefore I had to figure out for myself many of the details which are now tabulated by the auditors of the various companies.

When I struck a term or some figures that I did not understand I studied and searched until they were thoroughly elucidated. Frequently I would be obliged to ask someone to help me out, and was astonished by the lack of knowledge displayed by many people of reputed wide experience. The majority had only a superficial idea of the inner workings of Wall Street and the railroads.

As time went on I read every financial book, paper and article I could get hold of until my mind became thoroughly saturated with the subject. As a test of the practical value of this knowledge, I used to make records of opportunities apparently indicated by the figures. One of the first of these was the Edison Electric Illuminating stock, which was then selling at 104. I remember going through the reports of this company and estimating what earnings would be shown four or five years hence. As a result of this I made a mental prediction of at least 150 for this stock and had the satisfaction, within a comparatively short time of seeing the stock exchanged for bonds on the basis of not far from 200.

Chicago, Burlington & Quincy was then selling below 60 and paying 4 per cent dividends, but was not quite earning that much. My figures showed that the company had an enormous sinking fund and a very comfortable surplus, the latter sufficient to carry it through a still further period of depression; also, that on a recovery in general conditions Burlington would again earn large dividends and sell at a very much higher price.

Atchison Convertibles, which were then selling at around 30, appeared to be in a very attractive position. The inter-

est on these bonds was not then obligatory, but within a few years it would become a fixed charge. My figures showed that, according to the ratio of increase which had prevailed in recent years, notwithstanding the reorganization, Atchison would be able to pay the full interest on these bonds when the time came, to say nothing of a small dividend on the preferred stock, which was then selling in the twenties.

In looking through my papers not long ago, I found a memorandum on Union Pacific which is not dated, but was evidently written during 1897. Union Pacific was in the receivers' hands and the common was then selling at 22, with the last assessment of 5 per cent still to be paid. The preferred stock was selling at 50. I got hold of the records of Union Pacific, and applying the past net earnings to the capitalization of the newly reorganized corporation, learned that earnings in the immediate future would show about 4 per cent on the preferred and 2 per cent on the common. The cost of 100 shares of Union Pacific at the prevailing market price would have been\$2,200 to which must be added the 5% assessment which remained unpaid 500

\$2,700

The assessment amounted in all to \$1,500 on each 100 shares of common, in exchange for which the holders were given 15 shares of new preferred stock. I figured that as soon as the preferred went on a dividend paying basis it would sell at 75 and 15 shares would be worth \$1,125. If realized upon at this price it would reduce the cost of 100 shares of common to 15¾. Allowing nothing whatever for the future development of the property, this seemed like a pretty good proposition to me, and my memorandum read, "I consider Union Pacific a bargain at present prices." I mention these things, not to prove my ability as a prophet, but to show the value of estimating future earnings and basing market ventures thereon.

It has been my experience that the biggest and most satisfactory way to make money was to figure out the "coming" properties. A railroad property is either making progress or running behind, and

a little study of its reports will prove definitely which. The long pull investor cannot afford to waste time and money on a property which is not on the verge of commencing or increasing its dividends. When a road is about to emerge into the dividend paying class it gives warning far in advance. Earnings applicable to dividends do not jump up suddenly from nothing to 5 per cent. Progress is a matter of steady growth and the trend of earnings is easily distinguished.

Proof that the opportunities have not all gone by lies in the record made by Chicago & Alton during the past year and a half. A person who studied the earnings of this property in the fall of 1907 learned that it was in a position to commence dividends at any time. The stock sold as low as 8¾ during the panic. As soon as the business skies cleared somewhat it was placed on a dividend basis and sold at nearly \$70 per share within fourteen months after the panic.

Thousands of people buy these low priced stocks blindly, led on by the records occasionally made in stocks like Alton. They do not realize that a stock will often sleep for years before it will reward their patience. For example: Sixteen or eighteen years ago I remember hearing Missouri, Kansas & Texas spoken of as likely to commence dividends at any time. Its annual reports did not confirm the rumor. The road was continually extending its lines, borrowing new capital and its maintenance charges were so low as to cause frequent comments from experts such as Tom Woodlock. In the face of all this it did not seem likely that dividends would be begun. Along in 1905, however, a very different condition prevailed. Gross earnings, which were \$12,600,000 in 1900, had jumped to \$20,000,000 in 1905. Surplus applicable to dividends grew in the same period from \$450,000 to \$1,267,000. There being only \$13,000,000 of preferred stock, the amount required to pay 4 per cent. dividends was only \$520,000. Hence the dividends which were finally begun in May, 1906, were fully warranted. The anticipation of dividends is just as valuable as their payment so far as the long pull speculator is concerned.

In going through the reports of a railroad it is not well to take everything for

granted. For instance, in a certain railroad report for the year 1899 the final figure in the earnings table showed what was apparently a surplus for the year. Upon checking up the additions and subtractions in the table I learned that instead there was a deficit of several thousand dollars!

In another case a company showed working capital equal to about \$12,000,000. I went through their figures and found that they had included under this item a plant valued at something like \$2,000,000, which, it is needless to say, had no place under that heading. I wrote to the president of the company, calling his attention to the error; he referred me to the auditor, and after quarreling with that dignitary to the extent of several letters I made him "take water." Whether this was intentional on the company's part or not I cannot say, but it proves that "all is not gold that glitters," especially in a corporation report.

The study of individual properties is one of the most interesting and productive lines for an investor to follow. A thorough knowledge of the physical and financial condition, as well as the earning power of a property, gives one an insight into values that can be turned to splendid account in the security market. It places the investor in the same position as a merchant who is a good judge of fabrics. The latter knows what it costs to produce certain goods, and his purchases and sales are made with a clear understanding of their intrinsic values. In times of panic and business depression he can purchase at far below these values; in booms he can sell out at unusually handsome profits. In no branch of the mercantile field are such great opportunities for profit offered as we find in the stock market, nor is there any line of business which is simpler in its actual operation than the purchase and sale of a certificate of stock. We have all seen figures showing the possibilities of a small amount invested in every panic and sold out in every boom in stocks, and we know of no other business where such tremendous possibilities exist and which can be conducted by the average man without interference with his regular occupation. For the study of the subject can be conducted after regular business hours. The mere operation of

buying and selling occupies but a few minutes for each transaction.

One of the best books written on this subject was "American Railways as Investments," by Carl Snyder. We regret to say that this book is now practically out of print, although only issued a couple of years ago. It is not so much an instruction book as it is an analysis of American railways—their histories, ownership, management, earning power, investment value, stability of earnings, etc. As Mr. Snyder puts it in the introduction:

"The problem of railway valuation is comparatively simple, and beyond the reach of but few. A railway is primarily a carrier, a carter, a drayman. Obviously then, in considering an investment, we shall ask: What sort of a road has it? What sort of vans and what sort of horses? What sort of trade? A teamster doing business on a fine level macadamized road, with big, heavy vans, and heavy draft horses, can work at a profit, and underbid a carrier with old vans and poor horses, working on roads of heavy grade. So, for example, a railroad, other things being equal, with a water grade like the New York Central, has a tremendous advantage over an up and down grade like that of the Erie. The Illinois Central can do business much more cheaply than the Missouri Pacific. A road with a magnificent equipment like the Lake Shore can undercut a poorly equipped road like the Nickel Plate.

"The initial facts that we wish to know of a railway then are: What sort of a road has it; what is its traffic; does it get good rates? When we know what business it does, what its earnings are, then we shall ask how it is capitalized, what are the fixed charges these earnings have to bear, what is there left, and the amount of stock which has to share the surplus. We shall ask if its earnings are stable; if the maintenance is adequate; if the policy of the road is conservative; if its management is good or bad. When we have done all this then we shall go into the market, ask the prevalent rate of money, and by a simple rule of thumb we shall know, in a broad way, whether the stock is cheap or dear."

After reviewing the various subjects bearing upon the value of a property, including not only earning power, con-

cealed earnings, controlled property, etc., Mr. Snyder has this to say as to the character of traffic:

"There is an old adage about not putting all one's eggs in one basket. If a road is dependent for its prosperity upon the prosperity of a single industry, like coal-mining or wheat-raising, it goes without saying that there will be a larger element of risk in its securities than as though its traffic were distributed over a great number of articles. A long strike in the anthracite or bituminous coal regions can send down the stocks of the Lackawanna or Reading, or Chesapeake and Ohio, or Norfolk and Western, and other lines; can very heavily impair the earnings of these lines and threaten their dividends. A long drouth in the corn fields or the wheat fields could vitally affect the prosperity of the 'Grangers,' as in Wall Street parlance the Western roads are known.

"It is for this reason that the investor will look into the character of traffic on a line, find out what portion of its earnings is from passenger service, what from freight service, and what are its other resources; he will inquire whether the items of freight are widely distributed as to tonnage or whether, as in the case of the Pennsylvania, and more distinctly with the "Coalers," coal and coke make up more than 50 per cent of the tonnage hauled. Every properly constructed railway report contains this information."

These details relating to traffic are usually set forth in the pamphlet reports of the modern railway, and are generally divided according to products, for instance, the Atchison traffic for the fiscal year of 1906 was divided as follows:

| | Per cent. |
|--------------------|-----------|
| Agricultural | 24 |
| Animal | 8 |
| Mines | 31 |
| Forests | 13 |
| Manufactures | 24 |
| Total | 100 |

These figures, when compared with those of ten years previous, showed a relative decrease in agricultural and animal products, while the other items showed a corresponding increase. This indicated the healthiest sort of growth and is an index to increased stability of earnings.

In arriving at investment values it is shown that a variety of items must be considered, the general plan being to discuss the record made through a series of years, namely, what the road has earned, what dividends it has paid, what surplus was left for dividends; and all these things must be considered in relation to the market price of the stock.

The Factor of Safety is another point of greatest importance. No matter how high the yield of a security, the investor whose primary regard is the safety of his money should never put it into a road whose fixed charges consume much more than 50 per cent. of the total net income available for interest, dividends and improvements. In looking over the table of fixed charges of the principal roads, we find that these range from about 25 per cent. in cases of stocks like Great Northern and Union Pacific to 125 per cent. on property like the Seaboard Air Line. A table showing the Factor of Safety, or, as it was there headed, "The Danger Decimal," was given on page 78, Volume 3, of *THE TICKER*.

Mr. Snyder's method in dealing with the individual properties was to outline the history of a road, show its ownership and directorate. He would then show the capitalization in dollars and per mile, net earnings on total capitalization, the amount of stock compared to the total capitalization, the amount of fixed charges compared to the total net income and the factor of safety. He would then elaborate on the company's equities, maintenance, character and stability of earnings, amount spent for improvements and devoted to reserve or sinking funds, and finally come down to an estimate of the investment value, the outlook for the property and the probable course of the securities.

The average man is apt to say "This is too much for me," but we speak from experience when we say that it is not too great a task for a man of ordinary intelligence who has some leisure time on his hands. Furthermore, several hours a week devoted to this subject will enable the man with small capital to make more money over a series of years than he makes from almost any other business requiring equal capital. The way to learn to analyze a report is to *do it*. As you progress you will find new avenues of in-

vestigation opening up and better, broader views attained at every turn. The subject will also contain increasing in-

terest as one proceeds, and will eventually become of absorbing interest, because of its money-making possibilities.

The one truly great thing upon this old earth of ours is Action, and the only man who never makes a mistake is the man who never does anything.

Some Don'ts for Traders

By G. A. Manwaring—"The Analyst"

IT has been truly said: While there may be a thousand ways to do a thing wrongly, there is but one way to do it right. It therefore follows that it is of great importance to know what not to do, market-wise.

The first step taken leading to a trade in the stock market is to think of it. Consider a trade in all its aspects—whether it is best to buy or sell and why. This includes, principally, a study of the trend and a consideration of whether the market is at the top, bottom or middle of its latest swing. It should also be decided why one chooses this particular stock. The question must be asked: Is there any other issue likely to yield more profit or less risk in the same kind of a market? Another important consideration is the quantity of stock which you desire to trade in and whether your resources are sufficient to protect you against any emergency. It goes without saying, that you must decide whether you are making a permanent investment or speculation. If

a speculation, a definite stop order must be decided upon.

It too frequently happens that but a single stock is viewed and even then only its present market price. Many people say, "I think the market will go up, so guess I will buy this stock." The market may go higher, but the stock selected may not be a leader, or for some reason will not participate in the advance. The market is not made by any one stock, and no one stock represents the market.

The majority of transactions by the outside public are based on tips and without any judgment being used as to the advantage of the stock in question, or whether it is an opportune time to trade on the side suggested by the tip.

An engineer in running his survey lines endeavors to secure as long a base line as possible, which, when extended, results in more accurate work than what he calls a short "back sight." It takes two sights on a gun to enable the marksman to aim, and the longer the gun and the further apart the sights, everything else being

equal, the better the aim. So in the market, the broader and longer the view, the more accurately can the present trend be gauged.

If it is desired to trade now, it is important to know the present "trend" of the market so as to judge on which side to trade.

This leads us to our first don't which is:

1.—Don't trade contrary to the trend.

The remark will frequently be heard around the ticker: "Prices are now high enough to sell on," or "After a recession I shall buy." These remarks and policies would be good provided the sale was made in a market of a downward trend or the purchase in a market with an up trend.

Millions of dollars are lost every year by people who buck the trend, one peculiar thing about the stock market being that the market itself is apt to make people do the opposite to what they should. Our criticism is directed toward such deals when made regardless of a trend, or even, as in most cases, without a *knowledge* of any trend.

It frequently occurs that for several days in succession prices will see-saw within a range of a few points and just about the time it has occurred a sufficient number of times to be borne into the consciousness of the trader, a longer swing is due. Almost invariably a dull period is a forerunner of a marked swing, either in one direction or other. As one writer puts it, speaking of the dull market prevailing during the latter part of January, "The market is now on a plateau." One thing is true of every plateau in existence, namely, that beyond it there is either a mountain or a valley.

A trader working on the short side in a dull period such as described, would be forced to take a loss when the market comes out of its rut and seeks a new high level. Had he dealt only on the side of the trend he would have ignored the short side and been long, thus being in a position to *profit* instead of lose by the upward swing.

When we are speaking of the trend necessary for the in and out trader we

do not mean only the long trend of months or years, which is caused by the fundamental factors and the general condition of the country's industries, but the trend of the five to twenty-day period.

It goes without saying that the man with the most complete knowledge of the various seemingly conflicting trends is in a position to trade to the best advantage.

Roughly, stock prices move in cycles of:

- (a)—20 years
- (b)—3 years 6 months
- (c)—six months
- (d)—five to thirty days.

For the in and out trader the last named trend is of primary importance.

It is all right to trade for the long swing if the trade is made principally as an investment and the stocks bought outright and put away. Under these conditions following the longer cycles will lead to profits, but for the in and out speculator it is nonsense.

Our next warning is against slim margins. One of our friends wrote us that "he had \$500 and wished to trade in 50-share lots." He might as well pick out his best friend and draw a check in his favor, for the money will be lost anyhow. We believe no account should be opened with less than 25 points margin and, even with this, all deals should be protected with a two-point stop. This leads to our next "don'ts":

2.—Don't deal on slim margins

3.—Don't deal in and out without a stop.

What constitutes ample margin depends greatly on your sprinting ability. We believe it important to run quickly when wrong. If a stock goes two per cent. against you it will usually go much more and you will be ahead by cutting short your loss. It is true that a stop frequently causes losses which would not otherwise be taken, but at other times results in savings, and it is our experience that a two per cent. stop saves much more than it costs.

Frequently the operator must take two, three or four successive two-

point losses, but, when a swing does come he is with it and lets his profits run, following the market up with stops, kept just far enough away to avoid being kicked out by a normal reverse movement. Getting these main swings much more than off-set the small losses.

Let us leave you with our first three don'ts firmly impressed.

- 1.—Don't trade contrary to the trend.
- 2.—Don't deal on slim margins.
- 3.—Don't deal in and out without a stop.

Any other policy seems to us to be financial suicide.



Exports and Balance of Trade

By Roger W. Babson

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BY Exports is meant goods shipped from the United States to any foreign country. This includes all raw materials, manufactured articles and, in fact, anything in exchange for which a resident of the United States receives money.

The monetary condition of the country depends on three things:

The amount of money in the country.

The demand for said money.

The confidence of the people.

The first item, namely, the amount of money in the country, is very dependent upon the exports. Technically, this is dependent on the Balance of Trade (which is explained under another heading), but practically it is dependent upon the exports.

Formerly the amount of exports was dependent almost entirely upon the amount of raw material raised; that is, wheat, corn, cotton, etc. The condition of the wheat crop, the corn crop and the cotton crop, as well as that of the smaller crops, such as hay, apples, potatoes, etc., determined the exports. With small crops the exports were very small, while with large crops the exports were large.

This condition, however, has changed

during the past eighteen years, in which period there has been a very great increase in exports. The total exports of the United States have increased from \$500,000,000 to \$1,300,000,000, and this increase has been almost wholly in manufactured products. In 1890 the United States was exporting about \$140,000,000 in food products and raw material, which amount has increased to only about \$165,000,000 in 1909. On the other hand, the exports of manufactured products have increased from \$400,000,000 in 1890 to nearly \$1,000,000,000 in 1909.

This is important to note, for if exports are to depend upon manufactured articles rather than on raw materials, this will tend to eliminate the great declines in exports which heretofore have occurred during years of crop failures.

Andrew Carnegie says: "The time is coming when the greater part of the raw material now forming the bulk of the export figures of this country will be used here; their place in export trade will be taken by manufactured articles. Then the American manufacturers can reach the markets of the world and compete therein with all the other industrial and commercial nations."

If this is so, and the figures for the past eighteen years seem to prove it, our exports will probably not only continue to increase, but the fluctuations will, as above suggested, be much less marked. This is another reason why we should especially study the figures on the Balance of Trade rather than the figures on either Imports or Exports exclusively.

There is one point in connection with exports, however, that the investor and merchant should especially remember, namely, that in the ordinary course of events exports continue to increase for some time after a period of depression commences, although the proportion of exports to imports may decrease. This is due to the fact that the momentum of the energy which resulted in increased production and exports during the period of prosperity itself does not immediately lose its force. Moreover the increase in exports usually continues until increased activity at home increases demand and prices, after which exports begin to diminish.

In other words, during a period of prosperity a decrease in exports is a dangerous sign, as it will tend to adversely affect the Balance of Trade. This is also true at the beginning of a period of depression; but after a period of depression has existed for some time, a decrease in exports is often a favorable sign, for it shows that home consumption is increasing.

Under this general subject are also considered the total figures on "Foreign Trade," which are a sum of the Imports and Exports. The following table shows these figures for the past year:

VOLUME OF TRADE FOR 1908.

| Month. | Imports. | Exports. | Total. |
|-----------------|-------------|-------------|-------------|
| January | 84,997,514 | 206,114,718 | 291,112,232 |
| February | 84,752,651 | 167,757,022 | 252,509,673 |
| March | 89,112,407 | 141,588,149 | 230,701,556 |
| April | 87,487,527 | 132,369,956 | 220,857,483 |
| May | 84,042,528 | 112,608,709 | 197,651,237 |
| June | 92,104,928 | 115,369,260 | 207,474,188 |
| July | 86,414,039 | 102,189,578 | 188,603,617 |
| August | 91,255,308 | 110,442,055 | 201,697,363 |
| September | 98,452,978 | 139,427,205 | 237,880,183 |
| October | 102,040,110 | 171,784,538 | 273,824,648 |
| November | 108,951,913 | 161,741,378 | 270,693,291 |
| December | 111,956,052 | 188,812,628 | 300,768,680 |

Balance of Trade.

One of the most important of the subjects to be studied by investors and merchants when diagnosing and forecasting future conditions is the Balance of Trade.

When we have sold to foreign merchants raw materials or merchandise greater in value than that which they have sold us, the Balance of Trade is said to be in favor of the United States as against foreign countries. This naturally results in the shipment to America of gold to adjust the balance, or the selling in the United States of "exchange" of foreign drafts at a discount, if the condition is but temporary. The Balance of Trade *does not always* determine the debtor country, as there are other factors to be considered, but as a rule this is the case.

Among the other factors referred to are the sale of American securities abroad and the payment of interest by the United States and corporations therein to foreign security holders. Although from the bond dealer's point of view it is very advantageous to have a large and wide market for American securities, and to have large blocks purchased abroad, thus leaving so much home money free for investment, yet it must always be remembered that each year it may be necessary to ship gold from the United States to pay the interest on these securities and that eventually gold must be shipped to pay the principal. The year that these securities are paid off or, if at any time before they are due foreign holders decide to sell them, this will nullify the good of a certain portion of the trade balance in our favor at such time.

If trade balances were dependent wholly on the exports and imports of raw material, merchandise, etc., it would be unnecessary for merchants and investors to study independently the subject of Trade Balances in addition to the study of Exports and Imports. Owing, however, to these additional factors caused by the sale of securities, payment of interest, etc., it is necessary to independently study the subject of Trade Balances.

Certain merchants when studying the Balance of Trade, which is the difference between Exports and Imports, also simultaneously study the figures resulting from the sum of the Exports and Imports. This not only serves as a check on their conclusions; it is done

because certain parties, when using the term Foreign Trade, refer to the *difference* between Exports and Imports, while others refer to their *sum*.

These two sets of figures, namely, the difference and the sum, when carefully tabulated each month, serve as a wonderful barometer for discerning present conditions and for forecasting future conditions. This, however, is explained under the general heading of Imports.

Although Foreign Trade figures when properly compiled for comparative purposes are of great value to those studying the conditions of the United States,

these figures are not conclusive in comparing the trade of two different countries. As there is no uniformity in the classification of the Imports and Exports of the different countries and as the methods of valuation are also entirely different, it is very dangerous to make comparisons between the various countries. This is discussed very clearly in an article on the "Comparatibility of Trade Statistics of Various Countries," by Sir A. E. Bateman, C.M.G., published by the American Statistical Association, New Series 1893, Vol. 3, page 533.



The Insidious Tip

ONE cold, rainy Sunday morning, while passing along a street in the residence section, I met a woman leading a small child by the hand.

She was shabbily dressed, her hair was disheveled, her clothes were barely hanging together. Her shoes were wet and bursted out.

The child's teeth were chattering. Its feet were wet and its little coat was thin. Both looked the picture of misery.

The woman stopped me and asked me to help them. She said they had been walking the streets all night, having been turned out of their room. She had no money and no friends nearer than Harlem. It cost 15 cents to get there, she said.

I asked why she had not gone to an institution. She stammered a rather lame excuse. I desired an explanation as to how she figured out the 15 cent proposition. She got rattled and could not make it at all clear to me; perhaps I was extra dense that morning.

I put her down as a professional beggar, with the tattered clothes and the chattering teeth as a sort of stage setting, but fearing there might be one chance in a hundred that she was telling the truth, I gave her car fare and grub money.

The minute she saw the coin her whole manner changed, proving to me that she had landed a sucker, and as she passed on her way (toward a gin mill, I suppose) I kicked myself for not having spent time and dollars to get the woman work, if she really was in need, for in giving her money I was not aiding her at all; I was only pushing her lower down in the social scale—helping to confirm her in pauperism. Doubtless she never will work so long as she can find people who will shell out coin in response to her tale of woe. She will probably die in the gutter.

The thought struck me: How much this woman is like many Wall

Street speculators! In a stock market sense, they have no brains, or, having brains, they do not know how to use them; hence they become beggars—for tips.

Absurd comparison? Not at all.

Walk down Wall, Broad or New street and stop a moment with the first friend you meet. Ten to one he will ask, "What do you know?" or "What's good?"

He is a beggar of tips.

He wants you to *give* him something which he is too lazy to earn for himself. To actually *know* anything at all about the stock market requires study and research.

This man thinks he can keep his head above water if you put him right this time. He explains the hard luck he has recently had—the \$5,000 profit he just missed. For some reason he believes you know more than he. This tickles your vanity, so that you "give up" like a yap. Unconsciously you color up some trifling bit of gossip, until it sounds like genuine goods "from the inside." (If you whisper a tip you increase its horsepower 500 per cent.)

He plays your tip, drops a wad, and curses you.

Had you said, "Go to! I'll give you no tips," you would have rendered him a genuine service. Instead you have helped to create another financial pauper.

He never will learn to depend upon his own judgment while people are willing to "post" him. He is not willing to give the time and labor necessary to working out his own salvation. Begging is easier.

Is it any wonder that the papers teem with stories of men gone wrong *via* stock speculation, when so large a percentage, out of sheer mental laziness, reduce themselves to absolute beggary through over-indulgence in tips?

Information is the only thing in Wall Street that is free. It's worth it: that is, it is good for nothing.

Sit down in front of a blackboard in any brokerage office and start chinning with the man next you. He may be a stranger, but before you have been at it five minutes you will be given some of the choicest information obtainable outside of 26 Broadway.

You ask if he has played his own tips; the answer is no, because he is tied up in some other stocks. You inquire of the manager if your informant is a money maker, only to learn that he is a steady loser.

You turn away disgusted. Before ten minutes have elapsed you pass the identical hot tip on to some one else, who in turn imparts it to a friend. And so the same old tip goes down the line, feeding the hungry, but adding more paupers to the already appalling list.

A tip is pernicious poison personified.

Eliminate tips from the financial district and you will throw the public on its own resources. With no one to feed them tips, people will be forced to use their own judgment. A few at least would work themselves into a perspiration digging for facts. Perhaps in time the many would learn to act with the same intelligence as they use in other lines of business.

It is said: Man is the only animal which puts into his mouth things that take away his brains.

In Wall Street men let into their ears things which take away their money.

But what's the use barking up this tree?

The case is hopeless.

The New Bond Rule

Recently Adopted by the New York Stock Exchange

THE following resolution has been recently adopted by the Governing Committee of the New York Stock Exchange:

"In settlement of contracts in interest paying bonds the interest shall be computed to the day of maturity of contract on regular sales or on sales at three days, at the rate specified in the bond; and on time option contracts, interest specified in the bond shall be computed to include the day of sale, and thereafter at the rate of interest agreed upon.

"Contracts made after default in payment of interest, and during continuance of default, shall be 'flat.'

"Bonds upon which the interest is in default shall carry all unpaid coupons.

"Registered bonds will not sell ex-interest on the day the books close for payment of interest.

"In settlement of contracts in interest paying registered bonds, interest must be added to the date of the maturity of contract, and a due bill, signed by the party in whose name the bond stands, for the full amount of the interest to be paid by the company, must accompany the bond until interest is paid; the due bill issued by a non-member must be paid when due by the Exchange member or firm guaranteeing it.

"On a contract in interest paying bonds 'seller's or buyer's option' at a rate agreed upon (as seller or buyer 20, 2%), the interest specified in the bond shall be computed to and including the day of sale; and thereafter interest at the agreed rate shall be computed on the contract price, plus accrued interest. An agreed rate of interest must be computed for actual elapsed days.

"Interest at the rate specified in an interest paying bond must be computed on a basis of a 360-day year; i. e.:

"Every calendar month is 1-12 of 360 days=30 days;

"Every period from a date in one month to the same date in the following month is 30 days.

"Income bonds must be dealt in 'flat.'"

The object of this resolution is to overcome the very confusing custom heretofore prevailing in connection with the dealings in bonds. Prior to the time this rule went into effect, many interest bearing bonds were traded in "flat" and others "and interest." This led to considerable confusion among bond houses and frequent altercations between brokerage houses whose customers objected to paying the accrued interest on bonds which they thought they had bought at a flat price. A uniform method will be found of great convenience to all concerned.

We give below a convenient table for figuring the accrued interest on \$1,000 bonds computed on the basis of 360 days to the year.

Accrued Interest on \$1,000 Bonds,

Computed Basis 360 Days Per Annum,

For any Period from One Day to Six Months

| Period | At 1/8% | At 2% | At 3% | At 4% | At 5% | At 6% | At 7% |
|--------|------------|----------|----------|----------|----------|----------|----------|
| 1 Mo.* | 0.417 | 0.667 | 2.50 | 3.33 | 4.17 | 5.00 | 5.83 |
| 2 Mos. | 0.833 | 1.333 | 5.00 | 6.67 | 8.33 | 10.00 | 11.67 |
| 3 Mos. | 1.250 | 2.000 | 7.50 | 10.00 | 12.50 | 15.00 | 17.50 |
| 4 Mos. | 1.667 | 2.667 | 10.00 | 13.33 | 16.67 | 20.00 | 23.33 |
| 5 Mos. | 2.083 | 3.333 | 12.50 | 16.67 | 20.83 | 25.00 | 29.17 |
| 6 Mos. | 2.500 | 4.000 | 15.00 | 20.00 | 25.00 | 30.00 | 35.00 |
| 1 day | 0.014 | 0.056 | 0.083 | 0.111 | 0.139 | 0.167 | 0.194 |
| 2 days | 0.028 | 0.111 | 0.167 | 0.222 | 0.278 | 0.333 | 0.389 |
| 3 " | 0.042 | 0.167 | 0.250 | 0.333 | 0.417 | 0.500 | 0.583 |
| 4 " | 0.056 | 0.222 | 0.333 | 0.444 | 0.556 | 0.667 | 0.778 |
| 5 " | 0.069 | 0.278 | 0.417 | 0.556 | 0.694 | 0.833 | 0.972 |
| 6 " | 0.083 | 0.333 | 0.500 | 0.667 | 0.833 | 1.000 | 1.167 |
| 7 " | 0.097 | 0.389 | 0.583 | 0.778 | 0.972 | 1.167 | 1.361 |
| 8 " | 0.111 | 0.444 | 0.667 | 0.889 | 1.111 | 1.333 | 1.556 |
| 9 " | 0.125 | 0.500 | 0.750 | 1.000 | 1.250 | 1.500 | 1.750 |
| 10 " | 0.139 | 0.556 | 0.833 | 1.111 | 1.389 | 1.667 | 1.944 |
| 11 " | 0.153 | 0.611 | 0.917 | 1.222 | 1.528 | 1.833 | 2.139 |
| 12 " | 0.167 | 0.667 | 1.000 | 1.333 | 1.667 | 2.000 | 2.333 |
| 13 " | 0.181 | 0.722 | 1.083 | 1.444 | 1.806 | 2.167 | 2.528 |
| 14 " | 0.194 | 0.778 | 1.167 | 1.556 | 1.944 | 2.333 | 2.722 |
| 15 " | 0.208 | 0.833 | 1.250 | 1.667 | 2.083 | 2.500 | 2.917 |
| 16 " | 0.222 | 0.889 | 1.333 | 1.778 | 2.222 | 2.667 | 3.111 |
| 17 " | 0.236 | 0.944 | 1.417 | 1.889 | 2.361 | 2.833 | 3.306 |
| 18 " | 0.250 | 1.000 | 1.500 | 2.000 | 2.500 | 3.000 | 3.500 |
| 19 " | 0.264 | 1.056 | 1.583 | 2.111 | 2.639 | 3.167 | 3.694 |
| 20 " | 0.278 | 1.111 | 1.667 | 2.222 | 2.778 | 3.333 | 3.889 |
| 21 " | 0.292 | 1.167 | 1.750 | 2.333 | 2.917 | 3.500 | 4.083 |
| 22 " | 0.306 | 1.222 | 1.833 | 2.444 | 3.056 | 3.667 | 4.278 |
| 23 " | 0.319 | 1.278 | 1.917 | 2.556 | 3.194 | 3.833 | 4.472 |
| 24 " | 0.333 | 1.333 | 2.000 | 2.667 | 3.333 | 4.000 | 4.667 |
| 25 " | 0.347 | 1.389 | 2.083 | 2.778 | 3.472 | 4.167 | 4.861 |
| 26 " | 0.361 | 1.444 | 2.167 | 2.889 | 3.611 | 4.333 | 5.056 |
| 27 " | 0.375 | 1.500 | 2.250 | 3.000 | 3.750 | 4.500 | 5.250 |
| 28 " | 0.389 | 1.556 | 2.333 | 3.111 | 3.889 | 4.667 | 5.444 |
| 29 " | 0.403 | 1.611 | 2.417 | 3.222 | 4.028 | 4.833 | 5.639 |
| 30 " | 0.417 | 1.667 | 2.500 | 3.333 | 4.167 | 5.000 | 5.833 |
| 31 " | 0.431 | 1.722 | 2.583 | 3.444 | 4.306 | 5.167 | 6.028 |

*Thirty days to month.

Suppose that on May 21st an investor buys a \$1,000 5 per cent. bond, the coupon on which is payable semi-annually, January 1st and July 1st. If May 21st comes on a Monday the contract will mature (that is, his broker will settle for the bond) on the next day, Tuesday, the 22nd. The accrued interest will, therefore, run from January 1st to May 1st, 4 months, and May 1st to 22nd, 21 days; total, 4 months 21 days.

The accrued interest on a \$1,000 5% bond, according to our table, is as follows:

| | |
|----------------|----------------|
| 4 Months | \$16.67 |
| 21 Days | 2.92 |
| | <u>\$19.59</u> |

If the bond is bought at 95 there would be added to the above the cost of the bond.....\$950.00
And commission, $\frac{3}{8}\%$ on par... 1.25

Making the net cost of the bond\$970.84

In the case of a $4\frac{1}{2}\%$ per cent. bond, the figures in the $\frac{3}{8}\%$ per cent. column should be added to those in the 4 per cent. column, etc.

Why Should Brokers Be Allowed to Speculate?

TO the Editor:

If Governor Hughes' committee wishes to investigate a point which is highly important to the patrons of the New York Stock Exchange, I would suggest that they decide the question as to whether brokers who are entrusted with hundreds of thousands of dollars belonging to the public should be allowed to speculate. The McIntyre and Brown failures have demonstrated that the weakest point in the Wall Street structure is found in the personal speculations of Stock Exchange members and their partners.

In the majority of banking institutions an officer or employe who is discovered to be a speculator is asked to resign and expert accountants are immediately called to examine his books. If he was handling nothing but his own money a bank officer could hardly be criticized on this score; occupying a position of trust he places himself where his every act in this direction is liable to work to the disadvantage of the institution's depositors.

It is very difficult for a speculator of any calibre to discontinue operations when he reaches the danger point, especially if this point is not clearly defined. It is a great deal worse for a house to deliberately place itself in a position where, if its customers' profits are large and their margins are suddenly withdrawn, the house itself will become insolvent. To use another expression, the house which operates thus is bucketing its customers and it is plain that the white flag will not fly over its breastworks until the limit of its resources and its customers' margins has been reached.

I understand there is a New York Stock Exchange rule forbidding an odd lot house which occupies the position of dealer, to accept commission orders from outside customers. In this way the Stock Exchange demands that the house be known either as a dealer or as a broker. Why not carry this idea a step further and insist upon houses being known either as Commission Houses or Speculative Houses? Then the public would know just what sort

of protection it had when placing its money in the hands of any Stock Exchange firm.

Before I do business with a house I make it my chief concern to find out whether its members are speculators or not. If I find them to be speculators I fear that the time may come when they might lose all their own dollars and reach out for some of mine to tide them over, and being innocent of this I would not know what had happened to me until the crash came.

If the Stock Exchange could place its Blue Ribbon on the

Straight Commission Houses, one would know which were doing business for a commission only. The trader could then depend upon it that not only his margin, but those of every other customer, would be kept up to the mark, and that not a dollar of anybody's margin would be sought to back the speculative ventures of the firm or its partners.

If Gov. Hughes' representatives could accomplish something of this sort it will amount, in my opinion, to about all the house-cleaning to which Wall Street is entitled.

Bonds from Various Viewpoints

By WM. R. GELSTON

Manager, Bond Dept., Harris, Winthrop & Company

SO much has been written concerning the many types of railway, industrial, state, city and other bonds, and classifications of the various mortgage, collateral, trust, debenture and other forms of corporate obligations, have been so complete and numerous that it will not be the purpose of this short article to analyze or to define. It is our purpose rather to point out what securities are best suited to the needs of different investors, and what considerations should influence the choice of purchases in individual cases.

In selecting investments one often weighs the facts regarding the security, its maturity, its rate of interest, the exact character of the lien, etc., and does not take into due consideration its adaptability to his particular needs and to his financial position, both present and future.

The laws of our different states cover the exact forms of investment for Savings Banks and Trustees. We shall not, therefore, discuss their viewpoints.

But let us first contemplate a business or professional man who has relatives that have become legatees under a will or perhaps beneficiaries of life insurance; he is consulted regarding the investing of their funds.

In the first place he must consider the relative financial status of the investors and must ask whether they have earning power, whether they are advanced in years, and what percentage of their total assets the funds in hand comprise. If the income from the contemplated investments is to be the chief means of support, and the investors have practically no earning power, the course to be chosen should be clear. Safety of principal and interest are the prime essentials. Possibilities as to enhancement in values should be left out of consideration. Standard first mortgage bonds of dividend paying railroads should form the backbone of such a selection, and it is doubtful whether better than 4 per cent. to $4\frac{3}{4}$ per cent. income can be secured from this source. This yield, however, may be raised to a higher aver-

age by combining with first mortgage railway issues the first mortgage bonds of established industrial and public utility corporations. Railroad notes of the better class may also be introduced to raise the average income yield.

In the above we have contemplated only the securities of what we might term the standard properties—those securities which are well known to all bankers and brokers and which enjoy general and established investment rating, owing to the size of the issues, the distribution holdings, the credit of the corporation and well advertised quotations. There are, however, many high grade bonds brought out every year by bond houses of unquestioned reputation—bonds of smaller corporations whose earnings and assets have been fully investigated by the bond houses in question. The reputation of these houses stands back of such issues.

First mortgage bonds of this character often can be bought on a basis to net $4\frac{1}{2}$ per cent. to 5 per cent., and can be considered in an investment selection such as we have mentioned. These bonds naturally do not enjoy an active market, and generally cannot be sold except at some concession from the purchase price. They are designed for holding until maturity. For this reason one should be careful that not too large a percentage of the investment fund available be put into this class of security. The personal equation enters more largely into such issues, and one must place entire confidence in the judgment and investigation of the house making the offering.

By combining these types of bonds, an average yield of perhaps 4.40 per cent. to 4.50 per cent. may be secured with reasonable safety. The following is a suggestion for a distributive investment of \$10,000 to yield about $4\frac{1}{2}$ per cent.:

| | | |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| \$5,000 | 1st Mort. Railroad bonds, such as Atchison 1st 4s, B. & O. 4s, M. K. T. 4s, N. & W. 4s, or Reading 1st 4s, all selling at about 100 | \$5,000 |
| \$2,000 | 1st Mortgage bonds of Public Utility Companies, sold by reputable houses, at, say 98, and paying 5% | 1,960.. |
| \$2,000 | 1st Mortgage Industrial or Public Utility bonds, at about 102, and paying 5% | 2,040 |
| \$1,000 | R. R. note paying 5%, at about 100 | 1,000 |
| <u>\$10,000</u> | | <u>\$10,000</u> |

It should be a rule that no investor omit from his selection some bonds which enjoy an active market and are quoted daily. Experience has shown that no one is assured that he will never in the future need money suddenly and many have been temporarily embarrassed owing to inability to sell or borrow upon their securities.

In the above we have taken the viewpoint of the business man when advising as to the investment of funds for those who have no earning power, and who are dependent upon fixed income. The same considerations should govern those who are choosing for themselves bonds whose interest is necessary for current needs, whose habits of life are fixed, and whose principal should be subject to as slight fluctuations as possible.

We will now consider the business or professional man who contemplates the investment of his own funds. We will assume that he has surplus profits which he does not need in his business or has savings from professional earnings. He is not a speculator, but he feels that his money must produce a return greater than 4 per cent. To him a bond with an always ready market is of chief importance. He may need the money to finance some new proposition. Such an investor is in closer touch with current reports regarding corporate earnings and prospects and can afford to buy debentures, second mortgage convertible or income bonds. The $\frac{1}{2}$ per cent. or 1 per cent. additional in interest return is really his compensation for his study of current financial news and its bearing on values. If there is any element of chance he recognizes it as a "business chance," and treats it accordingly.

Such a person is entitled to some share in the equities of his properties. In buying the convertible bonds of a railroad with good prospects he can feel that he is not merely lending the money

to the company at a fixed rate of interest, and with a fairly certain limit as to the future value of the principal so loaned, but that he is to be a partner in the development and prosperity of the property. Such convertible bonds come ahead of the stock as to assets in case of default and bankruptcy. For these reasons sound 4 per cent. or 5 per cent. convertible bonds are not subject to such severe decline as the stock into which they are convertible, but they share in any advance the stock may enjoy.

A younger man especially should not lose sight of these factors regarding equities in choosing bond investments. If he buys the first mortgage bonds of one of our leading trunk lines, he, in a sense, is building a roof over the possible enhancement of his principal. Such a first mortgage bond has almost fixed limitations as to possible rise in price.

The writer once heard a railroad official say, "Yes, we'll get the public to carry our extensions for us by taking the 4 per cent. mortgage bonds, but we'll make our money out of the stock (which didn't cost us much) when the earnings from these extensions begin to show up."

This serves to prove that the younger business man should not always be the one to help "carry the extensions" while some one else secures the reward in increased value of equities. We probably should never have heard of Commodore Vanderbilt if, as a younger man, he had invested the earnings from his Staten Island ferry in Government Bonds.

It is not our purpose to stimulate speculation rather than investment, but no live business man can afford to disregard this element of growth which has in the past handsomely rewarded purchasers of these secured "partnership" issues.

A factor which should never be lost sight of by an investor who has earning capacity and who considers the future

value of his principal, is the purchasing power of money. A bond is a promise to pay a fixed sum of money, at a stated time, with interest at a fixed rate. The performance of the contract is usually secured by a lien on certain property. At maturity the principal is paid back in dollars. Now there can be no question that the present purchasing power of money in this country is at least 40 per cent less than it was twenty-five years ago. Consequently the man who at that time bought a twenty-five-year bond at par finds the \$1,000 received at the maturity of the bond to be a far smaller sum expressed in rent, food, wages, etc., than it was when the bond was purchased. There surely are no present indications that money will buy more twenty-five years hence than it does today.

It is also probably a wise policy for investors of the class we have been considering to confine themselves entirely to the better known and more active issues. It is obvious that the bonds comprising a large issue will be more active than those of a small one. Brokers are asked every day for opinions as to the value of bonds of small corporations, representing an incorporated private business. Information as to the exact financial status of such a concern is difficult for outsiders to obtain, and in taking the bonds of a company of this character one should be so close to someone affiliated with the business itself that he will know at first hand all details regarding earnings and finances. Brokers can give very little information of a satisfactory nature on securities of this type.

Bonds deserve careful and continued study, and an investor should combine with his knowledge of the securities themselves a proper consideration of his own earning capacity, his probable future cash requirements, and the possible enhancement of his principal.



Men and Methods

ONE of the biggest speculators and gamblers in Wall Street once said: "I don't care how reckless I am at night, up at my hotel. The time to be careful is between 10 A. M. and 3 P. M., when the Stock Exchange is open."

That man always considered himself a careful man. He made half a dozen fortunes in Wall Street, and lost two or three of them. He kept the rest, but he is pretty certain to go back to the Street again some day.

Another man, now one of the big investors of the country, has a slightly different idea.

"I have always made money," he says, "by becoming what one might call reckless when the rest of the world was scared; and I have kept it by getting scared when the rest of the world got reckless!"

That is the true principle of scientific investment. It cannot, however, be left to stand alone; for it tells only half the story. What this man means by recklessness is really the truest kind of caution. At such a time as last winter, when every man one met talked of receiverships, of bank failures, and of personal catastrophes that threatened even the wealthiest men of the country, this investor was buying for cash right and left. He bought gilt-edge bonds, high-grade stocks, middle-class bonds, and fairly reputable railroad stocks in immense amounts. They were paid for and put into a vault as big as a small room, down near the market-place.

That would be sheer recklessness for the average investor. It was not for this buyer. Three expert statisticians were working day and night in those times, finding out for him the truth about the stocks and bonds that he seemed to buy with such careless abandon. He bought nothing that could not stand the test of this expert examination. His "recklessness" was not buying with his eyes shut, but with his eyes very wide open, indeed.

Then came the period of advancing prices and of pools in the market that were putting the prices higher every day. For months he paid no attention whatever to these financial gymnastics. Then he set his men at work again in earnest, this time not to discover what one might buy, but what one ought to sell. If the market price was higher than he would pay in normal times for a particular security, that was considered a good reason for selling it; for a wise investor will not care to keep securities that he could not afford to buy at their current prices.—*World's Work*.

"I HAVEN'T the time, nor the patience, to bother with any man who can't make good," said E. H. Harriman, during a recent board meeting in considering the connection of a new road with his vast system. The physical problem was a simple enough affair, but the board members could not see their way to properly finance the enterprise.

"What's *your* opinion?" asked Mr. Harriman, turning to a young western financial agent sitting apart, who had not joined the discussion.

"It can be done," he said, with the slow, sober emphasis of one who has given the subject careful consideration beforehand.

"You're my man!" shouted Harriman. "Now you go and do it."

How typical of the railroad magnate that he should instantly saddle with responsibility the only man who made an expression of confidence. This little impromptu assignment proved the making of the western promoter and added a new branch to the Harriman system in what was long known as a transportation failure, but which is now booming along the path of prosperity—the Erie Railroad.—*Alcolm Magazine*.



INQUIRIES

What do you wish to know about trading or investing in securities or commodities? Is it something regarding opening an account, margins, commissions, stop orders or other kinds of orders?

In fact, is there any point in connection with the science, methods or customs of the various markets which you would like to have elucidated?

If so, write us questions briefly and they will be answered in this column or otherwise. If personal reply desired, enclose stamped envelope. Address Inquiry Department.

WE DO NOT GIVE ADVICE OR OPINIONS UPON SECURITIES OR PROBABLE MARKET MOVEMENTS.

TO the Editor:

I have now been a subscriber of your up-to-date magazine for some time and have read your articles carefully. I was much interested in that one bearing the caption, "The Record of a Novice," perhaps from the fact that 'twas something like my own, only so different in monetary results. Your criticisms of the course pursued appealed to me, and I am ready and glad to admit of my own inability, but would thank you very much if you would kindly state in detail and as definitely as possible just how to acquire these necessary fundamentals, commercial, financial, technical, etc., which you mention. I have quite a number of works on investments and speculation, and understand stop orders, but seem just now to possess a first rate ability to pick losers. I understand 'tis more profitable to buy at bottom in panics and sell at top in booms than to go short or long for a few points on a weak margin, but a small capital don't look much buying outright, and one's expenses go on all the time.

I would also like to ask if a broker has any legal right to refuse to sell stock

upon which a margin has been placed, when instructed to do so by a trader, and what constitutes a reasonable time for the execution of an order to buy or sell *at the market*. My inference is that when one buys or sells on a margin he owns the stock, or is financially responsible, and has full right to order his broker to buy or sell at the market *at once*, and can demand execution at once, or get damages for loss sustained for negligence or delay. Also, what is legal proof that a trade has been made?

What do you consider a reasonable margin? Do you consider a buyer on margin has clinched his right to ownership before the law as consistently as if he had paid for his stock in full and it was still in the hands of his brokers? In case of a failure of his brokers, could their creditors touch his stocks which he (the lamb) had bought on a margin, or paid for in full? How would this operate on short sales?

Answer:

It is difficult to suggest a definite way in which to acquire a knowledge of fundamentals. There is no cut and dried rule on this sort of thing, but generally

speaking, we should say you ought to read and study everything you can get hold of which relates to the subject. If you find that you have not been successful, it is probably because you are using wrong methods, or no method at all. Better hold off until you get clearly in your mind how you intend to operate and prove by past records that such a method would have been successful; then start trading in very small lots and on big margins, using a stop order. You will make a great mistake if you try to make your living by speculating in stocks without first having acquired considerable experience. Better look for your bread and butter elsewhere and study the market at your leisure.

A broker has no legal right to refuse to sell stock which he is carrying for you on margin. It is your stock and he is bound to carry out your instructions at once or stand the consequences. Evidently some one has been taking advantage of you. Legal proof that a trade has been made is constituted in the notice which is received from the broker, the memorandum received or delivered with the stock, and the check given in payment therefor.

As to margins, it depends on the stock, the character of the market, etc. See inquiries in back numbers, also Supreme Court decision in Volume 2 as to ownership. Recent inquiries regarding securities as margin have been covered in this column. In case you were short of stock from a broker who failed you would be an ordinary creditor of the failed house.

Past and Future of Denver Preferred.

Q.—I note in an answer to an inquiry headed Denver Preferred, in your January number, you say "the dividend on Denver preferred has scarcely been warranted for a number of years past." This does not agree with what Thos. Gibson says in his weekly letter of December 19, 1908. I believe you regard him as pretty good authority. He says: "This property has a very good record. It has paid 5 per cent continually for a number of years on \$45,761,400 preferred stock, with a comfortable surplus, etc."

Though bearing the brunt of Western Pacific financing he thinks D. & R. G., will profit greatly from the through business it will receive from this road and can even

afford to make up a deficit in the latter's earnings.

I was contemplating investing in D. & R. G. Do you think Mr. Gibson has overstated their prospects?

A.—If you will refer to the road reports you will find that the surplus after the payment of 5 per cent dividends on Denver preferred have averaged only about two-thirds of 1 per cent over requirements for the past six years. During this time the property has been kept in none too good a physical condition.

We agree with Mr. Gibson, that the property has a good dividend record, but whether these dividends were warranted is quite another matter. We should not call the above a comfortable surplus. The showing for the year ending June 30, 1908, was an increase of \$652,000 in surplus but this was made possible by a cutting down of the renewals, etc., to the extent of \$1,300,000. The stock has ranged lower than any other paying the same dividends. In 1908 it sold as low as \$9.

Future earnings are an entirely separate matter. We have no doubt that when the company is able to handle through freight to the coast its earnings will expand enormously. We do not think Mr. Gibson has over-stated the prospects. You will recollect that our reply in the January issue was in answer to the question, "Why is Denver preferred selling so low?"

Playing Panics.

Q.—I believe in specializing in panics, but as only a few come in a lifetime, would it not be safe and wise to modify such views by buying on the occasional decided slumps, or bargain days occurring each year?

In so doing one could guard one's self more carefully when in the third or fourth year of a long swing and use but a smaller part of your capital so as to be ready to buy more heavily should a possible panic come.

Would this method be likely to prove as profitable as holding to the slower, i. e., four to seven year panic periods, and strictly panic buying only?

A.—A great many panics come in an ordinary lifetime. Following are those of recent years: The Baring panic in 1890; Panic of 1893, Venezuelan Panic, 1895; Northern Pacific Panic, 1901; Panic of 1903 and Panic of 1907. Thus six panics have occurred in nineteen calendar years or almost one every third year. You can if you choose, divide your capital, using a portion for panics and the remainder for big slumps which occur a few times every year. Make sure at the outset whether you are in a bull or a bear year. It is a losing game to buy even on big breaks when a bear market is on. Your idea of becoming more cautious after a few years upswing is all

right, but why not get out altogether and wait for a panic after such a period? It is impossible to say which method would prove the most profitable.

Figuring Earnings.

C. H. W.—Balance for dividends is the item on which you base your figures. Deducting preferred dividends you find what remains for the common. Figure how much per cent this equals on \$112,000,000 of stock outstanding (each \$1,123,000) being equal to 1 per cent. No need of such elaborate figuring. If a company has a balance for dividends of \$4,000,000 and expends \$2,000,000 for preferred dividends, there is \$2,000,000 left for the common. Figure what this equals and find its ratio to the market price in the Railroad Guide.

Cash Transactions.

Q.—I buy all my securities and pay for same in full. In about one to two weeks I receive my certificates. When my brokers buy they want check or draft for the full amount before 3 p. m., on day of purchase. Where do I stand from the time I give check on draft till I receive my certificate in case they should fail during this period? This is the way I have been buying for the last year and so far everything has been all right, but I have never quite felt safe. Can you advise a safer way to purchase or am I fully protected during this period? When I sell I give my certificate to the Bank who will not deliver it till they receive the money. Your magazine is all O. K. I have been able to gain a great deal of practical good from it.

A.—The delay in delivering your certificates seems unnecessary. The reason they require your check for the full amount before 3 p. m., on the day of purchase is, that the money must be remitted to New York to pay for your stock the next day. If you obtain from them a receipted bill they cannot use either your money or the certificate without making themselves liable to criminal charges.

If you give an order to buy on Monday the stock should be delivered to their New York house on Tuesday. The new certificates should be issued in your name on Wednesday and be received by you on Thursday or Friday, provided, of course, the transfer books of the company are open. In case the books are closed you would have to wait until they open. If the firm fails between the time of your giving a check and their delivering the stock, neither the firm nor its assignee would have any right to use your certificate or your money for their own purposes.

One way of making such purchases is to give the order to your bank and have the

broker deliver the certificate to the bank. In this case the funds will not be turned over until the certificate arrives, after which you or your bank can send it to the transfer office of the company. A new certificate in your name will then be issued and sent direct to you.

Past Records.

Q.—Where can I procure the opening, high, low and close, of Reading, covering every day of the years 1900, 1901, 1902, 1903, and up to February 10, 1904? The figures must be accurate. I am working out a certain proposition, and have been able to secure these figures from 1904 to date from a newspaper office, but the files are very inaccurate back of that date.

A.—C. Mont. Benton, 526 West 28th St., New York City publisher of the Railroad Quotation Guide, will doubtless permit you to copy these figures from his files.

The Curb Market.

Q.—Has the New York Curb market any organization and where can I obtain details?

A.—The New York Curb Market is without organization. It is an open market; anyone can go there and trade, provided he is known to be responsible, otherwise no one will deal with him.

The affairs of the Curb are looked after by E. S. Mendels, agent, 6 Wall street, New York, who will give you any information desired.

Names of Buyers and Sellers.

Q.—I am dealing with an out of town house and find that all the names of brokers with whom my transactions are made are similar. That is, when I sell I always seem to get a certain name on my report and the same when I buy. It certainly looks curious. Can you give me a reason for it?

A.—As you are dealing with a private wire house which does its business through a New York house, you doubtless get the name of the New York correspondent in every case. If you request it, your broker will doubtless furnish the name of the actual buyers and sellers on each report.

Market Swings.

Q.—What is the best way to study the swings of the market?

A.—Charts are best for this purpose. The Massachusetts Publishing Co., Everett Station, Boston, issue these yearly and monthly numbers. The 1908 annual number is just out and also contains a five year diagram.

Books For Tape Readers.

Q.—Kindly inform me of some good reading matter on Tape reading as suggested in your article on this subject in your December issue.

A.—There is no book devoted exclusively to the subject. Books which will aid you are listed on one of the advertising pages of the TICKER. Principal among these are: Bound Volumes of the Ticker, "A. B. C. of Stock Speculation," "Pitfalls of Speculation," "Cycles of Speculation," "The Work of Wall Street," "Money and Investments," "How Money is made in Security Investments." The other books listed bear indirectly on the subject. It is hardly possible to pick up any Wall Street publication without obtaining ideas and sidelights which will aid you. The subject should be studied broadly and in detail.

Figuring Margins.

Q.—Taking advantage of your invitation in the January TICKER, p. 131, I would like to have the Owls' opinion on my plan which I have in contemplation for speculating in Wall Street. I cannot state my previous plan except that I always bought on a ten point margin and gradually paid the balance and have at present fully paid for

| | |
|----------------------------------|---------|
| 200 Tol. R. W. & L. est. at 12½ | \$2,500 |
| 200 U. S. R. R. com. est. at 12½ | 2,500 |
| 80 Nor. Pac. est. at 140 | 11,200 |
| 100 Steel com. est. at 50 | 5,000 |

580 Total. \$21,200
and now I wish to buy on margin 100 U. P. at 180, \$18,000; 100 Steel at 53, \$5,300; total \$23,300, putting up the former securities as collateral with my broker.

Please tell me to what extent I will be margined and whether you consider me safe in the above or what procedure would you advise?

A.—You neglected to state your plan. If you deposit your present holdings of 580 shares of stock worth \$21,200 as margin on 100 additional Steel and 100 Union Pacific you would be carrying 780 shares on \$21,200—equal to about 27 points on the entire line. This pays for your 400 shares of low-priced stocks twice over, so it would be best to eliminate these 400 shares of Toledo Railway and Light and U. S. Reduction. You will then have \$16,200 on 380 shares or over 42 points margin. This is a very liberal margin indeed, but it is against our policy to say whether you are safe or not. You might consider the fact, however, that Union Pacific has had a 85 point rise after a 97 point decline. If you will state your plan in full, we will be able to criticize it.

Transferring An Account.

Q.—In making a transfer of my account from one brokerage house to another, is it

necessary for me to close up the trades which I am now carrying on margin?

A.—It is not necessary for you to close your open trades. The account will be transferred exactly as it now stands on your present broker's books. You have nothing to do but sign an order instructing your present broker to transfer the account. When this is done write a letter to the firm to whom you are transferring it, telling them what securities are in the account and the approximate amount of equity.

Statistics of Corporations.

Q.—Can you inform me how I can obtain information about the Knoxville Iron Co., and the National Surety Co.? I have been unable to get quotations on either stock and I am desirous of keeping in touch with both stocks and also of learning something about the value of their properties and similar information.

I would also like to know whether I can obtain a book giving fairly complete statistics of railroads and industrials—not merely bonded indebtedness, outstanding stock, etc., but value of property, surplus per year, earnings, etc. I have seen similar books published by some of the large banking houses but have been unable to obtain copies. The book which I need is one that gives sufficient information for a small investor to use in figuring the relative value of stocks and bonds with a view to buying them outright and holding them as an investment.

A.—We do not find that the Knoxville Iron Co. is listed in any of our publications. The National Surety Company is described in Moody's Manual, a copy of which will be found in almost any banking, bank or brokerage office.

We can supply you with either Moody's Manual or Poor's Manual, or the Manual of Statistics. The price of Moody's Manual is \$10 delivered. It contains nearly 3,000 pages of statistics, etc., and with it is given a monthly supplement which gives the latest earnings and corporations news. This will doubtless fill your requirements. Should you desire a special report on any company, C. L. F. Bridge, of 10 Wall street, makes a specialty of this class of work.

Margin Calls.

Q.—I have 100 Wheeling & L. E. 1st pref., at 24½, 30 of Beth. Steel, at 23½ and 25 of Erie at 33½, having paid on this \$2,140, the total cost being \$4,100. It is my desire to purchase 50 of Col. Fuel at 41, giving an additional 50 shares of Rep. Steel common. Would like to know at what rate these stocks would have to drop before I would be called upon for more margin, leaving out the advance in some, but figuring out the drop in all of them. Having always bought outright, am not familiar with marginal trading.

A.—When you have bought your 50 Colorado Fuel and deposited 50 Republic Steel as margin, your account will stand as follows at to-day's prices:

| | Value. |
|----------------------------------------|---------|
| 100 Wheeling & L. E. 1st pf.@23 | \$2,300 |
| 30 Beth. Steel@24 | 720 |
| 25 Erie@30 | 750 |
| 50 Col. Fuel@41 | 2,050 |
| 50 Rep. Steel@25 | 1,250 |
| 255 shares long. | \$7,070 |
| Less | |
| Cost of 50 Col. Fuel @41 | \$2,050 |
| Bal. due on original holdings, \$2,000 | \$4,050 |

\$3,020

which is equal to over 11 points on your 255 shares. If your broker requires 10 points kept good he will call you as soon as these stocks have had an average decline of 3 or 4 points from the above prices.

Technical Terms.

Q.—Would like to inform myself about exact meaning of the Put and Call, Stop, etc. If this is to be had together with meaning of financial terms generally would like to know where I can obtain it. If not, where can I get explanation of these words?

A.—Vols. 1 & 2 of The TICKER explains Puts and Calls, and Stops. "Money and Investments," by Rollins, explains all technical terms. See list of books on another page.

That the number of foreign stockholders in our American Corporations is gradually decreasing is shown in the announcement of the Pennsylvania Railroad that only about 16% of its stocks is owned by foreigners, against nearly 50% ten years ago. Another interesting fact is that out of dividend checks numbering over 58,000 mailed last November, 28,000 were sent to women stockholders.

Speculation is a science, and both speculators and investors are engaged in speculation, although in different degree. Both have for their object the profitable employment of money by the purchase of property, real or personal.—HENRY CLEWS.

HERE are some extracts from an editorial on Wall Street published in the Jersey City *Journal*:

"Gambling should not be confounded with investment; they are different propositions. All should remember that it is dishonest to traffic in stocks in the hope that trickery or manipulation may give them a temporary or fictitious value. It is equally dishonest, in another view, to speculate on margins, when a sudden sag in the market may wipe out one's all. Wise investors never buy securities, no matter how good or cheap they may be, on margin; the risk is too great. The only safe plan is to buy stocks outright or not at all, always keeping in mind that only a good investment is a good speculation."

From this it will be observed that the seat of financial knowledge has been removed to Jersey City.

Prices of Exchange Seats.

| Exchange | Last Bids |
|-----------------------------|-----------|
| New York Stock | \$78,000 |
| Montreal Stock | 23,000 |
| Toronto Stock | 15,000 |
| New York Cotton | 10,000 |
| New Orleans Stock | 10,000 |
| Philadelphia Stock | 7,000 |
| Washington Stock | 5,000 |
| Pittsburg Stock | 4,000 |
| Minn. Chamber of Com. | 3,600 |
| Los Angeles Stock | 3,500 |
| St. Louis Stock | 3,500 |
| Chicago Board of Trade..... | 2,600 |
| Baltimore Stock | 2,500 |
| Cincinnati Stock | 2,500 |
| Cleveland Stock | 2,500 |
| New Orleans Cotton | 2,400 |
| Rochester Stock | 2,000 |
| New York Coffee | 1,500 |
| Chicago Stock | 1,100 |
| New York Consolidated | 800 |
| Salt Lake Stock | 650 |
| New York Produce | 500 |

If you wish to be placed in touch with a responsible house, write THE TICKER, stating whether you are contemplating investment or speculation; what amount you have for investment, or in what size lots you wish to deal.

Also state what large city is located most conveniently to you, or if you have any preference in this regard.

OPPORTUNITY.

Master of human destinies am I,
Fame, love and fortune on my footsteps wait,
Cities and fields I walk; I penetrate
Desert and seas remote, and, passing by
Hovel and mart or palace, soon or late
I knock unbidden once at every gate.

If sleeping, wake—if feasting, rise before
I turn away. It is the hour of fate,
And they who follow me, reach every state
Mortals desire, and conquer every foe
Save death; but those who doubt or hesitate,
Condemned to failure, penury and woe,
Seek me in vain and uselessly implore,
I answer not and I return no more.

ANSWER TO "OPPORTUNITY."

They do me wrong who say I come no more
When once I knock and fail to find you in—
For every day I stand outside your door,
And bid you wake and rise and fight again.
Wail not for precious chances passed away,
Weep not for golden chances on the wane,
Each night I burn the records of the day—
At sunrise every soul is born again.
Laugh like the boy at splendors that have sped,
To banish joys be blind and deaf and dumb,
My judgment seals the dead past with its dead,
But never binds a moment yet to come.

ELBERT HUBBARD'S OPINION.

THE actual fact is that, in this day, Opportunity not only knocks at your door, but is playing an anvil chorus on every man's door, and lays for the owner around the corner with a club. The world is in sore need of men who can do things. Indeed, cases can easily be recalled by every one where Opportunity actually smashed in the door and collared her candidate and dragged him forth to success.

These cases are exceptional; for usually you have to go out and meet Opportunity. But the only way you can get away from Opportunity is to lie down and die. Opportunity does not trouble dead men, nor dead ones who flatter themselves that they are alive.

